Seco Tools
Year-end report
2010

SECO TOOLS AB

Year-end report 2010 and interim report for the fourth quarter

* Revenue for the fourth quarter rose by 35 per cent at fixed exchange rates, and by 28 per cent in SEK, and amounted to SEK 1,577 M (1,231). Operating profit was SEK 322 M (121), equal to an operating margin of 20.4 per cent (9.8).
* Revenue for the full year increased by 27 per cent at fixed exchange rates to SEK 5,858 M (4,889). Operating profit was SEK 1,098 M (307), equal to an operating margin of 18.7 per cent (6.3).
* Profit after tax for the full year was SEK 742 M (161). Earnings per share for the full year were SEK 5.10 (1.11).
* Strong cash flow from operating activities of SEK 1,252 M (861) for the full year.
* Acquisition of the American toolmaker Niagara Cutters completed.
* The Board proposes a dividend of SEK 4.20 per share (0).
* Lars Bergström is the new President and CEO as of 1 January 2011.

Comments from the CEO

"Demand continued to improve steadily in virtually all of Seco Tools' markets during the quarter. As earlier, the strongest growth was seen in the emerging markets Asia and Eastern Europe.

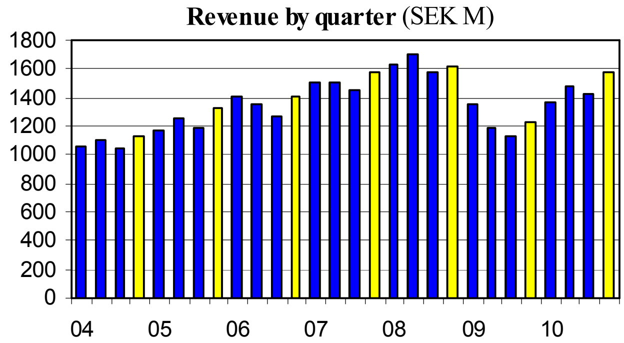
Operating profit for the fourth quarter rose sharply over the previous year and reached SEK 322 M (121), equal a margin of 20.4 per cent (9.8). The improvement is mainly attributable to higher volumes. However, the stronger Swedish krona reduced earnings by 47 M for the quarter and SEK 149 M for the full year.

Cash flow from operating activities remained strong in the fourth quarter and amounted to SEK 1,252 M (861) for the full year. It has therefore been possible to further reduce the net debt/equity ratio, which was 0.42 (0.85) at the end of the year.

Our ongoing growth initiatives within the "Positioning for Growth" programme are now focused primarily on market penetration in growth regions and increased capacity for a solution-oriented approach, together with continuous upgrading of the product portfolio. Examples of the latter include new products in the drilling and end milling area for machining of composite materials.

We are pleased to announce Seco Tools' acquisition of the American tool company Niagara Cutters during the fourth quarter. Niagara is a maker of solid carbide end mills and is one of the largest local manufacturers of these products in the USA. The end mill product area is regarded as strategically important, among other things for high-speed machining capacity and the ability to meet close tolerance requirements. The acquisition will strengthen Seco Tools' position and market share in this segment in general and in the important US market in particular, and will give the Group valuable experience in diamond coatings and micro-tools," says Lars Bergström, President and CEO.

Fourth quarter revenue



Revenue for the fourth quarter rose by 28 per cent compared to the same period of last year and amounted to SEK 1,577 M. At fixed exchange rates, revenue was up by 35 per cent.

The successive improvement in sales continued during the fourth quarter in all major market regions. The strongest growth in the quarter was reported in the emerging markets of Central and Eastern Europe and Asia. Among the larger mature markets, the most positive development is still being noted in the USA and Sweden.

Revenue for the full year

Consolidated revenue for the full year was SEK 5,858 M (4,889), up by 20 per cent compared to the preceding year. At fixed exchange rates, the increase was 27 per cent. Foreign exchange losses amounted to 7 percentage points.

All major market regions recorded strong growth at fixed exchange rates for the full year, particularly the emerging markets of South America and Asia.

Revenue – market regions

	2010 Oct-Dec SEK M	2009 Oct-Dec SEK M	2010 Jan-Dec SEK M	2009 Jan-Dec SEK M	Change 10/09 Oct-Dec %[1)]	Change 10/09 Jan-Dec %[1)]
EU	833	673	3,036	2,719	35	22
Rest of Europe	125	89	420	351	45	22
Total Europe	958	762	3,456	3,070	36	22
NAFTA	231	178	914	733	35	32
South America	78	58	332	208	32	53
Africa, Middle East	22	31	98	117	-32	-19
Asia, Australia	288	202	1,058	761	40	40
Total Group	1,577	1,231	5,858	4,889	35	27

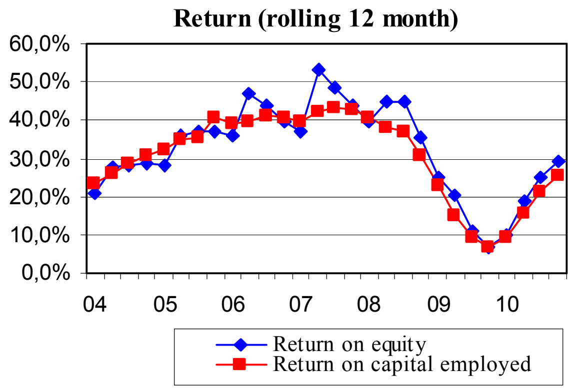
[1)] The change from the preceding year is shown at fixed exchange rates.

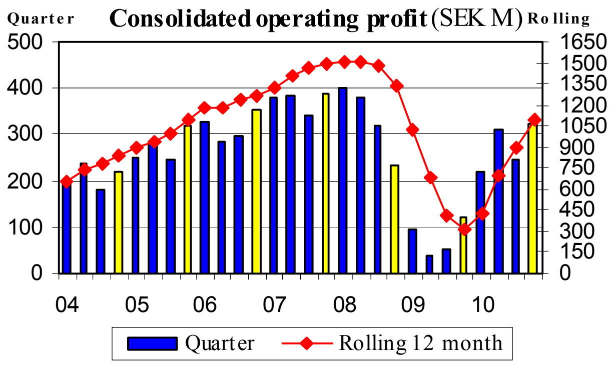
Earnings and return

Consolidated operating profit for the fourth quarter rose significantly over the previous year and reached SEK 322 M (121), equal to an operating margin of 20.4 per cent (9.8). The improvement is mainly attributable to increased volumes and better capacity utilisation.

Compared to the previous year, operating profit for the fourth quarter was affected by foreign exchange effects of SEK –47 M. For the full year, operating profit was impacted by cumulative foreign exchange effects of SEK –149 M.

Operating profit for the full year increased to SEK 1,098 M (307), equal to an operating margin of 18.7 per cent (6.3).





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.

Earnings per share for the full year were SEK 5.10 (1.11). For the same period, return on capital employed was 25.5 per cent (6.7) and return on equity was 29.1 per cent (6.7).

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 decreased by SEK 20 M during the year and totalled SEK 166 M (186) at 31 December 2010. Cash flow from operating activities improved considerably compared to 2009 and amounted to SEK 1,252 M (861) for the full year. The increase is mainly explained by a higher profit and the fact that working capital has not risen despite the year's strong growth.

The Group's interest-bearing liabilities decreased further during the fourth quarter and amounted to SEK 1,403 M (2,107) at the end of the year. The Group's net debt/equity ratio at 31 December 2010 was 0.42 (0.85).

GROUP

Consolidated income statement (SEK M)

	2010 Oct-Dec	2009 Oct-Dec	2010 Jan-Dec	2009 Jan-Dec
Revenue	1,577	1,231	5,858	4,889
Cost of goods sold	-665	-613	-2,459	-2,230
Gross profit	912	618	3,399	2,559
Selling, administrative and R&D expenses	-601	-507	-2,261	-2,169
Other income and expenses	11	10	-40	-83
Operating profit	322	121	1,098	307
Financial items	-13	-15	-74	-84
Profit after financial items	309	106	1,024	223
Taxes	-89	-28	-282	-62
Profit for the period	220	78	742	161

Consolidated statement of comprehensive income (SEK M)

(Specifying items recognised directly in equity resulting from transactions with non-owners)

	2010 Oct-Dec	2009 Oct-Dec	2010 Jan-Dec	2009 Jan-Dec
Profit for the period	220	78	742	161
Other comprehensive income				
Foreign exchange differences	2	10	-109	-69
Comprehensive income for the period	222	88	633	92

Gross margin strengthened for both the quarter and the full year, mainly due to higher volumes and better capacity utilisation, although the improvement was somewhat undermined by foreign exchange losses of around SEK 194 M for the full year.

Selling, administrative and R&D expenses for the full year rose by SEK 189 M at fixed exchange rates. However, the impact on the income statement was offset to a certain extent by foreign exchange gains of approximately SEK 87 M for the full year.

Other income and expenses consist primarily of foreign exchange differences. The previous year’s other income and expenses also included restructuring charges of SEK 55 M.

The Group’s planned depreciation and amortisation for the year totalled SEK 378 M (369).

Consolidated key figures

	2010 Oct-Dec	2009 Oct-Dec	2010 Jan-Dec	2009 Jan-Dec
Operating margin, %	20.4	9.8	18.7	6.3
Profit margin, %	19.6	8.6	17.5	4.6
Earnings per share, basic and diluted, SEK	1.51	0.54	5.10	1.11
Return on capital employed before tax, % [1)]	25.5	6.7	25.5	6.7
Return on equity after tax, % [1)]	29.1	6.7	29.1	6.7
Equity per share, basic and diluted, SEK [1)]	19.68	15.33	19.68	15.33

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

Consolidated balance sheet (SEK M)

	31 Dec 2010	31 Dec 2009
Intangible assets	388	309
Tangible assets	2,354	2,313
Financial assets	214	220
Inventories	1,394	1,275
Current receivables	1,286	1,086
Cash and cash equivalents	166	186
Total assets	5,802	5,389
Equity	2,863	2,230
Non-current liabilities	568	589
Current liabilities	2,371	2,570
Total equity and liabilities	5,802	5,389

Interest-bearing liabilities and provisions at the end of the quarter amounted to SEK 1,403 M (2,107), while the non interest-bearing portion was SEK 1,536 M (1,052).

Consolidated statement of changes in equity (SEK M)

	31 Dec 2010	31 Dec 2009
Equity at the beginning of the period	2,230	2,603
Dividend	–	-465
Comprehensive income for the period	633	92
Equity at the end of the period	2,863	2,230

Consolidated cash flow statement (SEK M)

	2010 Jan-Dec	2009 Jan-Dec
Profit for the period	742	161
Add-back tax expense	282	62
Add-back amortisation/depreciation	378	369
Other	-49	46
Taxes paid	-149	-51
Cash flow from operating activities before changes in working capital	1,204	587
Changes in working capital	48	274
Cash flow from operating activities	1,252	861
Cash flow from investing activities [1)]	-591	-305
Cash flow from financing activities incl. dividends	-673	-652
Cash flow for the period	-12	-96

[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 Oct-Dec	2009 Oct-Dec	2010 Jan-Dec	2009 Jan-Dec
Revenue	989	685	3,681	2,851
Cost of goods sold	-591	-522	-2,240	-1,909
Gross profit	398	163	1,441	942
Selling, administrative and R&D expenses	-198	-186	-744	-706
Other income and expenses	-3	24	-64	-23
Operating profit	197	1	633	213
Financial items	-4	-4	81	369
Profit after financial items	193	-3	714	582
Appropriations	21	-28	-38	14
Taxes	-57	-19	-151	-84
Profit for the period	157	-50	525	512

The positive net financial items consist mainly of dividends received from subsidiaries. The Parent Company's planned depreciation and amortisation for the full year totalled SEK 159 M (146).

Parent Company balance sheet (SEK M)

	31 Dec 2010	31 Dec 2009
Tangible assets	1,117	1,096
Financial assets	766	745
Inventories	854	824
Current receivables	1,166	935
Cash and cash equivalents	1	2
Total assets	3,904	3,602
Equity	1,589	1,072
Untaxed reserves	611	573
Provisions	1	1
Non-current liabilities	81	78
Current liabilities	1,622	1,878
Total equity and liabilities	3,904	3,602

The level of cash and cash equivalents remains low. The Parent Company's interest-bearing liabilities decreased during the year and amounted to SEK 1,195 M (1,630) at 31 December 2010.

Number of shares

The total number of shares at the end of the fourth 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 year. The increase has been essentially carried out through the recruitment of temporary staff 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 31 December 2010 was 5,306 (4,412), including 224 employees from the companies acquired during the year in the USA and France.

Capital expenditure

The Group's capital expenditure on tangible and intangible assets during the fourth quarter amounted to SEK 187 M (66), of which SEK 28 M (2) referred to capitalisation of IT/R&D costs. Cumulative capital expenditure for the full year totalled SEK 386 M (325), of which SEK 63 (15) referred to capitalisation of IT/R&D costs. The increase in capitalisation is attributable to specific charges relating to a global project for improved product data information.

Acquisitions

In December 2010 Seco Tools signed an agreement to acquire the American companies NC Industries (NCI) and Diamond Tool Coating (DTC). The acquisition was completed on 29 December.

NCI is a maker of solid carbide end mills under the Niagara Cutters and Arch Micro Tools brands and is among the largest local manufacturers of these products in the USA. DTC is a producer of diamond tool coatings. Most of the customers are found in the aircraft and power generation industries, as well as the general engineering industry.

NCI and DTC have combined annual sales of around SEK 275 M and 183 employees. The largest production unit is located in Reynoldsville, PA. Sherwood Bollier will remain as President of NCI and DTC after the acquisition and both companies will continue as separate entities in order to ensure continuity in operations.

<u>Preliminary purchase price allocation (PPA):</u>

	SEK M
Purchase price paid in cash	206
Withheld purchase price	37
Additional purchase price	23
Total purchase price	266
Fair value of net assets	-242
Goodwill	24

Contingent consideration may be payable on the attainment of specific growth and profitability targets for the period 2011-2012. Goodwill is attributable to the company's strong position in the important US market. NCI's customer and distribution network and strong brand, combined with Seco Tools' product offering and technical knowhow, are expected to provide favourable conditions for revenue growth in the next few years. The recognised acquisition expenses amount to SEK 6 M.

Acquired assets and liabilities, at fair value:

	SEK M
Tangible assets	152
Brands, patents, etc.	32
Inventories	41
Trade receivables and other receivables	30
Trade payables and other interest-free liabilities	-13
Acquired net assets	242

Dividend

The Board of Directors proposes to the Annual General Meeting a dividend of SEK 4.20 per share (0).

The proposed dividend represents a return to the regular dividend level prior to the financial crisis in 2008 and 2009 and will ensure a continued strong balance sheet and financial capacity to act on future business and investment opportunities.

The average dividend payout ratio over the past five years has been 61 per cent, excluding extraordinary dividends. Including extraordinary dividends, the dividend payout ratio over the past five years has been 77 per cent. Including the proposed dividend, the average dividend growth rate (ordinary dividend) has been 4.3 per cent annually over the past five years and 4.9 per cent annually over the past ten years.

The Board's assessment is that the proposed dividend will not hinder Seco Tools AB and other companies in the Group from fulfilling their short- and long-term obligations and that it can thereby be justified with respect to the cautionary rule in the Swedish Companies Act. The proposed record date for the right to receive dividends is Friday, 6 May 2011.

AGM and annual report

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. Seco Tools' annual report will be available to the public at the company's head office in Fagersta and will be distributed to the shareholders who so request starting in the first week in April.

Financial information

Seco Tools AB will publish the following financial reports for 2011:

First quarter 2011	3 May
Second quarter 2011	19 July
Third quarter 2011	27 October
Year-end report for 2011	January 2012

Review

This report has not been subject to special examination by the company's auditors.

Fagersta, 1 February 2011

SECO TOOLS AB (publ)

THE BOARD OF DIRECTORS

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 2 February 2011, 7:45 a.m. CET.

For additional information contact 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 head office is +46 223-400 00.