

SECO TOOLS AB

Year-end report for 2006 and interim report for the fourth quarter

- * Year-over-year revenue for the fourth quarter rose 14 per cent at fixed exchange rates to SEK 1,412 M (1,321). Operating profit was SEK 353 M (319), equal to an operating margin of 25.0 per cent (24.1).
- * For the full year 2006, the Group posted its highest revenue and operating profit of all time. Revenue for the full year improved by 10 per cent at fixed exchange rates to SEK 5,451 M (4,936). Operating profit was up by 15 per cent to SEK 1,266 M (1,100), equal to an operating margin of 23.2 per cent (22.3).
- * Profit after tax for the full year is reported at SEK 873 M (784).
- * Earnings per share for the full year were SEK 6.00 (5.39), an increase of 11 per cent.
- * The Board proposes a regular dividend of SEK 3.80 (3.40) per share and an extraordinary dividend of SEK 2.20 (2.00) per share.

Comments from the CEO

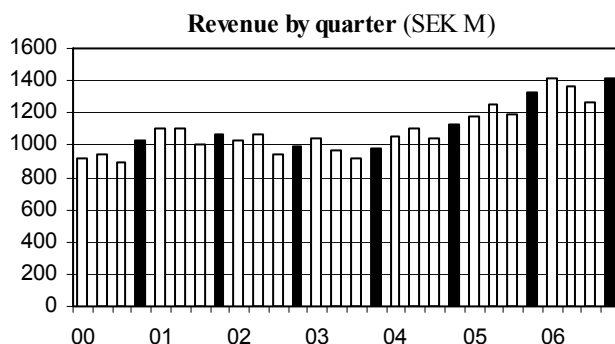
Market position, profitability and return strengthened in 2006

“2006 was a very successful year for Seco Tools when our focus on maintaining closeness to the customers, our strong product offering and continued advances in both mature and emerging markets all contributed to further expansion of our market shares.

The past year saw rising demand in Europe, while growth in North America remained stable. Central and Eastern Europe and Asia also showed sustained improvement and vigorous growth. On the whole, we are seeing no indications of slowing in demand.

Revenue reached an all-time high and this, together with rationalisations in manufacturing, enabled us to deliver excellent results for 2006. Operating margin for the year was 23.2 per cent. Return on equity and capital employed were also very satisfactory, with both at around 40 per cent,” says Kai Wörn, President and CEO of Seco Tools.

Fourth quarter revenue



All market regions reported solid revenue growth in the fourth quarter. Revenue in Asia rose 20 per cent at fixed exchange rates, mainly driven by brisk growth in China and India. Western Europe continued to show double-digit growth and sustained high demand, as did Central and Eastern Europe (CEE). A continued positive sales trend was noted in the NAFTA region.

Consolidated revenue for the fourth quarter reached SEK 1,412 M (1,321), up by 7 per cent over the year-earlier period. On a like-for-like basis and at fixed exchange rates the increase was 14 per cent, while relatively strong negative exchange effects impacted revenue for the period by 7 percentage points.

Revenue during the year

The majority of markets and regions enjoyed powerful growth during the year. The rate of growth was high in both Asia and the CEE area. In local currency terms, revenue growth in the USA was even and stable throughout the year. Western Europe showed robust growth in most markets.

Consolidated revenue for the full year reached SEK 5,451 M (4,936), a year-over-year increase of 10 per cent. On a like-for-like basis and at fixed exchange rates, the increase was 10 per cent. Foreign exchange losses in the second half of the year fully offset the earlier positive effects.

Revenue – market regions

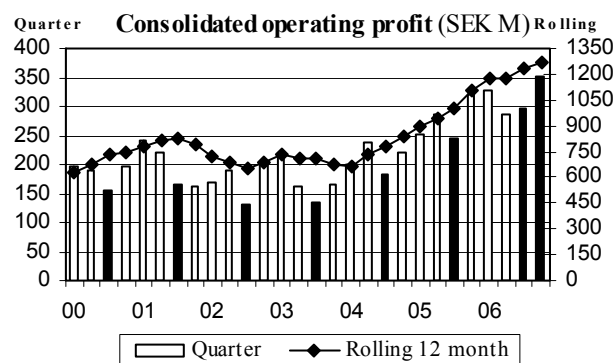
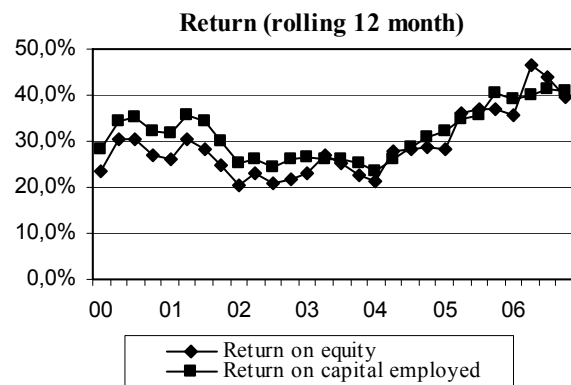
	2006 Oct-Dec SEK M	2005 Oct-Dec SEK M	2006 Jan-Dec SEK M	2005 Jan-Dec SEK M	2006/2005 Oct-Dec % ¹⁾	2006/2005 Jan-Dec % ¹⁾
EU	830	763	3,213	2,900	12	11
Rest of Europe	73	60	267	217	31	25
Total Europe	903	823	3,480	3,117	13	12
NAFTA	235	248	973	914	8	8
South America	48	50	201	196	10	-4
Africa, Middle East	30	19	93	82	79	18
Asia, Australia	196	181	704	627	20	14
Total Group	1,412	1,321	5,451	4,936	14	10

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

Earnings

Consolidated operating profit for the fourth quarter was SEK 353 M (319), an increase of 11 per cent over the corresponding period of 2005. Operating margin was 25.0 per cent (24.1). The improved operating profit for the quarter is largely attributable to a combination of higher revenue in local currencies and strong capacity utilisation in the Group's production units.

Operating profit for the full year rose 15 per cent and operating margin was 23.2 per cent (22.3). Of total consolidated operating profit, foreign exchange gains contributed SEK 15 M (28). Earnings per share were SEK 6.00 (5.39). Return on capital employed amounted to 40.9 per cent (40.5) and return on equity to 39.4 per cent (37.0).



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.

Consolidated income statement (SEK M)

	2006 Oct-Dec	2005 Oct-Dec	2006 Jan-Dec	2005 Jan-Dec
Revenue	1,412	1,321	5,451	4,936
Cost of goods sold	-534	-492	-2,232	-2,026
Gross profit	878	829	3,219	2,910
Selling, administrative and R&D expenses	-516	-510	-1,940	-1,820
Other income and expenses	-9	0	-13	10
Operating profit	353	319	1,266	1,100
Financial items	-4	13	-31	-6
Profit after financial items	349	332	1,235	1,094
Taxes	-105	-89	-362	-310
Profit for the period	244	243	873	784

The Group's planned depreciation for the full year 2006 totalled SEK 279 M (266).

Parent Company

Parent Company revenue is reported at SEK 3,276 M (2,843) and operating profit at SEK 826 M (691). Cash and cash equivalents at the end of the year amounted to SEK 3 M (4). The Parent Company's interest-bearing loans at 31 December totalled SEK 671 M (366).

Key figures

	2006 Oct-Dec	2005 Oct-Dec	2006 Jan-Dec	2005 Jan-Dec
Operating margin, %	25.0	24.1	23.2	22.3
Profit margin, %	24.7	25.1	22.7	22.2
Earnings per share before/after dilution, SEK	1.68	1.67	6.00	5.39
Return on capital employed before tax, % ¹⁾	40.9	40.5	40.9	40.5
Return on equity after tax, % ¹⁾	39.4	37.0	39.4	37.0
Equity per share before/after dilution, SEK ¹⁾	15.27	15.18	15.27	15.18

1) Key figures calculated on a rolling 12-month basis.

In June 2006, Seco Tools AB carried out a 5-for-1 share split according to the decision of the Annual General Meeting, with the record date on 12 June. The number of shares at the end of 2006 thus amounted to 145,467,690. The number of shares at the end of 2005 was 145,467,690. The average weighted number of shares for the corresponding periods was 145,467,690. All of the above figures refer to the number of shares before dilution, and have been restated as if the share split had been carried out at an earlier date. No theoretical dilution effects are currently possible, nor were they possible for the above comparison periods.

Consolidated balance sheet (SEK M)

	31 Dec 2006	31 Dec 2005
Intangible fixed assets	250	259
Tangible fixed assets	1,548	1,460
Financial fixed assets	175	121
Inventories	1,117	1,010
Current receivables	1,213	1,122
Cash and cash equivalents	243	226
Total assets	4,546	4,198
Equity	2,221	2,207
Long-term liabilities	531	613
Current liabilities	1,794	1,378
Total equity and liabilities	4,546	4,198

Interest-bearing liabilities at the end of the year totalled SEK 1,020 M (808), while the interest-free portion was SEK 1,305 M (1,182).

Statement of changes in equity (SEK M)

	31 Dec 2006	31 Dec 2005
Equity at beginning of period	2,207	2,028
Effect of accounting change	-	0
Adjusted equity	2,207	2,028
Foreign exchange differences	-74	122
Total income/expenses recognised directly in equity	-74	122
Profit for the period	873	784
Total income/expenses in equity	799	906
Dividends	-785	-727
Equity at end of period	2,221	2,207

Consolidated cash flow statement (SEK M)

	31 Dec 2006	31 Dec 2005
Profit for the period	873	784
Add-back tax expense	362	310
Add-back amortisation/depreciation	279	266
Other	67	-19
Taxes paid	-426	-432
Cash flow from operating activities before changes in working capital	1,155	909
Changes in working capital	-151	-107
Cash flow from operating activities	1,004	802
Cash flow from investing activities	-388	-401
Cash flow from financing activities, incl. dividends	-580	-475
Cash flow for the period	36	-74

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.

Accounting principles

This year-end 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 latest published annual report. As of 1 January 2006, 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.

Liquidity, cash flow and net debt

The Group's cash and cash equivalents in the form of short-term investments and bank balances decreased by SEK 53 M during the quarter and amounted to SEK 243 M (226) at the end of the year. Fourth quarter cash flow from operating activities was strong and provided scope for further reduction of the Group's borrowing. The Group's interest-bearing loans thus decreased by SEK 173 M during the fourth quarter and totalled SEK 839 M (625) at year-end.

The Group's net debt/equity ratio at 31 December was 0.35 (0.26).

Restructurings

The cemented carbide production unit in Warren, USA, was closed in June 2006 and production was transferred to the plants in the Czech Republic and Sweden. Efforts are underway to move the US operations to a property that is better suited to future activities.

Operating profit for the full year 2006 included total restructuring charges of SEK 75 M, of which SEK 30 M was staff-related and SEK 45 M consisted of costs for the wind-up and relocation of operations. No restructuring charges were recognised in profit for the fourth quarter. Because activities are still underway and due to the nature of these costs, the cash flow effect for the full year was equal to approximately 15 per cent of the profit effect.

Personnel

The number of employees in the Group at 31 December 2006 was 4,224 (4,036), of whom 1,442 (1,355) worked in Sweden. The year's recruitment was mainly focused on sales and production, with the CEE area and Asia accounting for most of the increase in sales staff. 99 people left the company during 2006 in connection with the wind-up of cemented carbide production in the USA.

Capital expenditure

The Group's capital expenditure on tangible and intangible fixed assets during the quarter amounted to SEK 162 M (162), of which SEK 10 M (7) referred to capitalisation of IT/R&D expenses. The corresponding capital expenditure for the full year totalled SEK 426 M (377), of which SEK 32 M (13) referred to capitalisation of IT/R&D expenses.

There were no investments in new subsidiaries during the year (-).

Senior executives

Paul Löfgren, 37 years old, has been named Senior Vice President Group Marketing and member of the Group Executive Management of Seco Tools with effect from 14 December 2006. Kurt Nordlund, currently Senior Vice President Group Marketing, was appointed President of the NAFTA region.

Patrik Johnson, 36 years old, has been appointed Senior Vice President and Chief Financial Officer and member of the Group Executive Management of Seco Tools with effect from 1 February 2007.

Dividend

The Board of Directors proposes to the Annual General Meeting that a regular dividend of SEK 3.80 (3.40) per share and an extraordinary dividend of SEK 2.20 (2.00) per share be paid for the financial year 2006.

Including the proposed dividend, the average annual dividend growth rate (regular dividend) has been 6.3 per cent over the past five years and 7.8 per cent over the past ten years. The proposed regular dividend for 2006 corresponds to a dividend payout ratio of 63 per cent. The average dividend payout ratio over the past five years has been 74 per cent, excluding extraordinary dividends.

The size of the proposed total dividend has been determined with consideration to the Group's capital structure and future prospects for expansion. According to the Board's assessment, the proposed dividend does not present an obstacle to Seco Tools AB or its subsidiaries in fulfilling their short- and long-term obligations and is therefore justifiable with respect to the cautionary rule in the Swedish Companies Act.

Annual General Meeting and annual report

The Annual General Meeting will be held at Folkets Hus in Fagersta at 1:00 p.m. on Thursday, 26 April 2007. The proposed record date for entitlement to dividends is Wednesday, 2 May 2007. Seco Tools' annual report will be available to the public at the company's head office in Fagersta as of 26 March and will be distributed on the same date.

Shareholders have the right to demand that a matter be addressed at the Annual General Meeting, provided that the request is received by the Board no later than 8 March 2007. Such requests are submitted to the Board but are addressed to Seco Tools AB, Att: Barbro Forsell, SE-737 82 Fagersta, Sweden. However, in order for the matter to be included in the notice of Annual General Meeting properly and with adequate certainty, it is recommended that shareholder requests be sent so that they reach the company by 27 February 2007 at the latest.

The Nominating Committee ahead of the 2007 Annual General Meeting consists of Lars Pettersson (Sandvik AB), Marianne Nilsson (Swedbank Robur), Tor Marthin (AMF Pension), Ramsay J. Brufer (Alecta Pensionsförsäkring) and Gunnar Björklund, Chairman of the Board. Individual shareholders who are not represented in the Nominating Committee may submit proposals and suggestions to the Nominating Committee via the company by telephone +46 (0)223-401 21, by mail addressed to Seco Tools AB, Att: Barbro Forsell, SE-737 82 Fagersta, Sweden, or by e-mail addressed to barbro.forsell@secotools.com.

Financial calendar

Seco Tools AB will publish the following financial reports for 2007:

First quarter 2007	26 April 2007
Second quarter 2007	19 July 2007
Third quarter 2007	26 October 2007
Fourth quarter and full year 2007	February 2008

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

Fagersta, Sweden, 1 February 2007

SECO TOOLS AB; (publ)

BOARD OF DIRECTORS

For additional information contact Kai Wörn, President and CEO, telephone +46 (0)223-401 10 or Stefan Sjödaahl, Investor Relations, telephone +46 (0)223-401 32. 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 (0)223-400 00.