Höganäs

YEAR-END REPORT

1 January – 31 December 2012

Fourth quarter 2012 (compared to corresponding period of previous year)

- Net sales were MSEK 1,489 (1,632), down 9% year on year. Demand conditions were better than in the corresponding period of the previous year in Asia and South America, but worse in Europe and North America. Sales volumes were down 2% year on year.
- Operating income was MSEK 131 (212) and income after tax was MSEK 145 (152). Lower sales volumes, reduced production volumes and non-recurring expenses of MSEK 44 for staff reductions had a negative effect on income. The stronger Swedish currency also had a negative income effect, while price increases and savings measures had a positive effect. The tax expense was positively affected by a restatement of deferred tax due to a new lower corporate tax rate in Sweden, effective 2013.
- Earnings per share before and after dilution for the quarter were SEK 4.16 (4.37).
- Cash flow from operating activities was MSEK 320 (267). Extensive destocking resulted in very strong cash flow despite lower operating income.

1 January – 31 December 2012 (compared to corresponding period of previous year)

- Net sales were MSEK 6,712 (7,081), down 5% year on year. Excluding the one-off deliveries to Hoeganaes Corporation (GKN) in 2011, sales volumes were down 3% year on year. Including these one-off deliveries, sales volumes were down 6%.
- Operating income was MSEK 903 (1,071) and income after tax was MSEK 698 (762).
- Earnings per share before and after dilution for the period were SEK 20.04 (21.90).
- Cash flow from operating activities was MSEK 1,122 (803).
- The net debt/equity ratio was 13% at the end of the period, compared to 25% at the beginning of the financial year.
- The Board of Directors is proposing a cash dividend of SEK 10.00 per share (10.00).
- Essentially, the outlook is unchanged compared to the assessment made in the Third-quarter Interim Report. The extent to which the debt crisis will affect global industrial activity in 2013 remains uncertain. However, underlying long-term demand conditions appear relatively favourable, apart from Europe.

CEO's comments—fourth quarter: focus on cash flow and adapting our organisation to a weaker market

"As expected, market conditions were fairly unfavourable in the quarter. Good sales were achieved on most Asian markets apart from Japan and India, but conditions were harsher elsewhere. The staff reductions we announced in our previous Interim Report have been executed. We adapted production and stock levels in the quarter, which affected income negatively, but contributed to record-high cash flow for the full year 2012. This strengthens Höganäs for 2013.

Other bright spots in the quarter included our notable success in the surface coating segment, where the sales increase was really positive worldwide. Sales volumes grew significantly in the fourth quarter also on a relatively weak European market, not least thanks to the new business we started with TRW, one of the world's largest Tier 1 suppliers to the automotive industry. This is another good example of a case where Höganäs' focus on high-quality products and superior technical support is paying off."

Income highlights

	Fourth quarter		Accumulated	
MSEK	**2012**	**2011**	**2012**	**2011**
Net sales	1 489	1 632	6 712	7 081
Operating income	131	212	903	1 071
Operating margin, %	*8,8*	*13,0*	*13,5*	*15,1*
Income before tax	121	199	868	1 024
Tax	24	-47	-170	-262
Net income	**145**	**152**	**698**	**762**
Earnings per share before dilution, SEK	4,16	4,37	20,04	21,90
Earnings per share after dilution, SEK	4,16	4,37	20,04	21,90
Return on capital employed, % (12 months)	-	-	*20,3*	*24,9*

Business areas (operating segments)

Net sales, MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Components	1 134	1 249	5 119	5 378
Consumables	355	383	1 593	1 703
Total	**1 489**	**1 632**	**6 712**	**7 081**

Income, MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Operating income:				
Components	97	152	680	766
Consumables	34	60	223	305
Operating income	**131**	**212**	**903**	**1 071**
Net financial income/expenses	-10	-13	-35	-47
Income before tax	**121**	**199**	**868**	**1 024**

Operating margin, %	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Components	8,6	12,2	13,3	14,2
Consumables	9,6	15,7	14,0	17,9
Total	**8,8**	**13,0**	**13,5**	**15,1**

Sales by geographical region

Net sales, MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Europe	432	495	2 018	2 284
America	455	500	2 083	2 272
Asia	602	637	2 611	2 525
Total	**1 489**	**1 632**	**6 712**	**7 081**

HÖGANÄS IN BRIEF

Höganäs AB (publ) is the world's leading producer of iron and metal powders. Building on its clear vision of the possibilities of powder to improve efficiency, the consumption of resources and environmental impact across a raft of segments, the company has developed in-depth application skills.

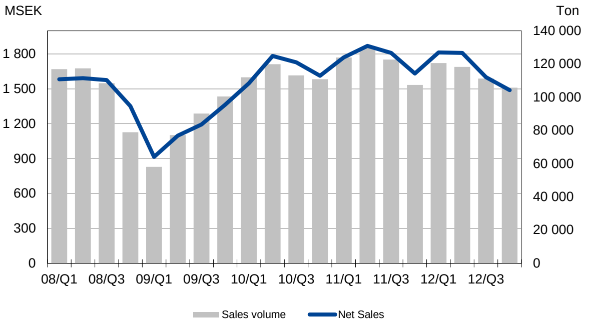
Thus Höganäs can help create the automotive components, white goods, water and exhaust treatment products of the future in collaboration with its customers. Founded in 1797, the company had sales of MSEK 6,712 in 2012, and is quoted on NASDAQ OMX Stockholm's Mid Cap List.

For more information, visit our website: www.hoganas.com.

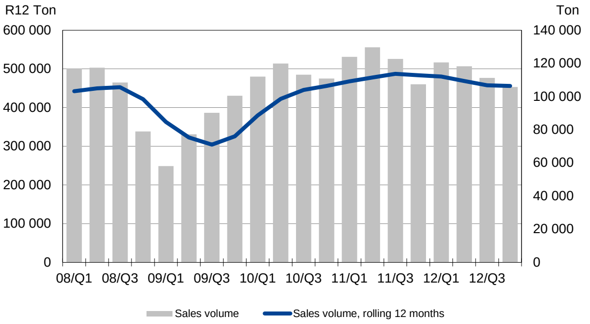
Group progress

NET SALES AND VOLUME

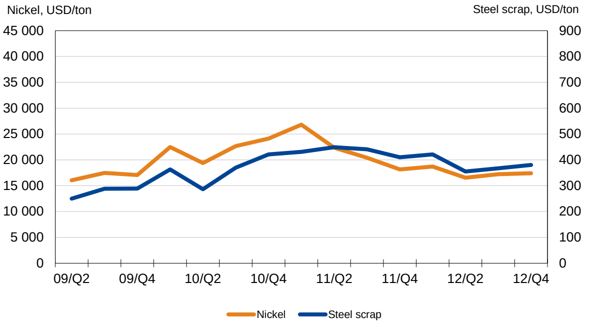
Net sales and volume by quarter



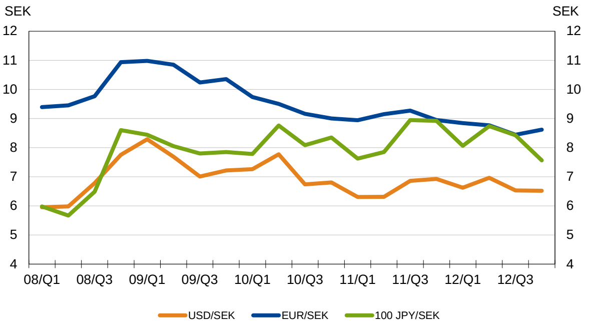
Volumes



Metal prices



Exchange rates



Fourth quarter 2012

Net sales in the fourth quarter were MSEK 1,489 (1,632), down 9% on the previous year. Sales volumes were down 2%.

As an effect of falling metal prices, metal price surcharges for all significant metals were lower than in the fourth quarter 2011. The Swedish krona remained volatile in the quarter. Overall, the currency effect on sales values was negative compared to the previous year, -4.5%.

Sales volumes in Europe were somewhat lower than in the fourth quarter 2011. Weakening domestic markets led to reduced manufacturing activity, not least the car industry, and further inventory adjustments for lower order levels were executed. The Russian market, where sales increased, was one positive exception. Sales in Asia were fairly positive, apart from Japan and India, where markets were weak. Sales volumes in North America were down somewhat year on year. Weaker export markets, and decreasing domestic cars sales after the peak achieved in the second quarter, triggered inventory adjustments by customers, which affected sales volumes negatively. Sales in South America improved on the previous year, largely due to stimulus measures for the domestic car industry, even if inventory adjustments and a seasonal slowdown did occur.

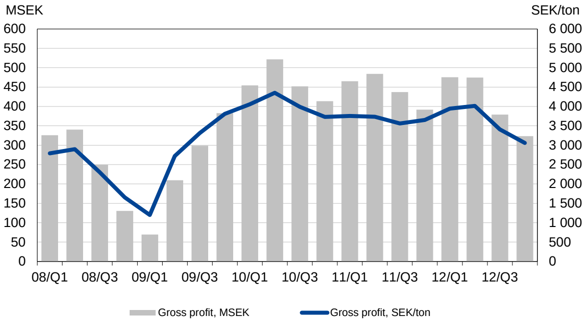
The period January – December 2012

Net sales in the year were MSEK 6,712 (7,081), down 5% on the previous year. Excluding one-off shipments to Hoeganaes Corporation (GKN) in 2011, sales volumes were down 3% year on year. Including these one-off deliveries, sales volumes were down 6%. General price increases were executed at the beginning of the year, exerting a positive impact on sales, while lower metal price surcharges had a negative effect. The currency effect on sales value was 0.3% positive compared to the previous year.

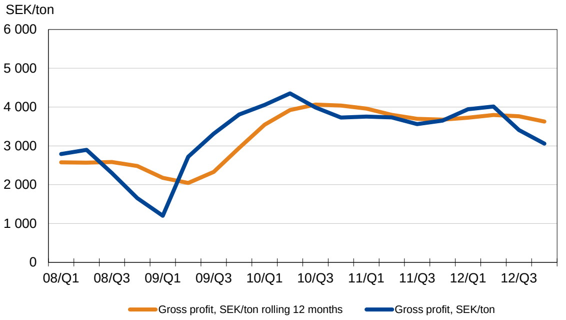
Sales volumes in Europe made a notable recovery in the first quarter after a poor fourth quarter 2011. But subsequently, sales deteriorated noticeably with each quarter. Sales in Asia featured a general recovery after the tsunami and floods in 2011, with only the Indian market being clearly weak. Generally unchanged sales volumes were apparent in North America compared to the previous year, adjusted for the one-off volumes to Hoeganaes Corporation. The outlook remains cautiously optimistic, but progress will probably be volatile. In South America, high inventory levels at the customer level resulted in fairly weak sales in the first half-year. The growth stimulus measures the Brazilian government implemented in the year to safeguard domestic production and jobs in Brazil had a noticeable positive effect in the second half-year.

INCOME AND RETURNS

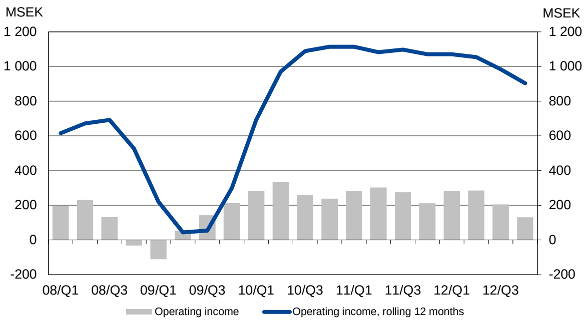
Gross profit by quarter



Gross profit per ton



Operating income by quarter



Fourth quarter 2012

Gross profit was MSEK 323 (392). The negative variance was mainly due to lower production volumes and expenses for severance pay and collective agreement occupational pensions relating to staff reductions, MSEK -21. The remainder of expenses for staff reductions are in selling, administrative and R&D expenses. The fairly weak demand conditions and focus on reducing inventories caused decreased production volumes. This meant lower production rates and weaker cost absorption at plants compared to the corresponding period of the previous year. Additionally, lower sales volumes and a stronger Swedish krona had some negative impact. Positive stocktaking gains in 2011 caused another negative variation in year-on-year comparisons. The price increases conducted at the beginning of 2012 had a positive effect, as did various savings measures.

Cost of materials remained volatile in the period. Metal price surcharges were significantly lower than the fourth quarter 2011, but generally, Höganäs judges that they compensated for raw materials price changes in the period. Overall, price volatility on those metals hedged resulted in a hedging loss of only MSEK -2 (21) in the quarter, which were offset by inventory gains of the same scale.

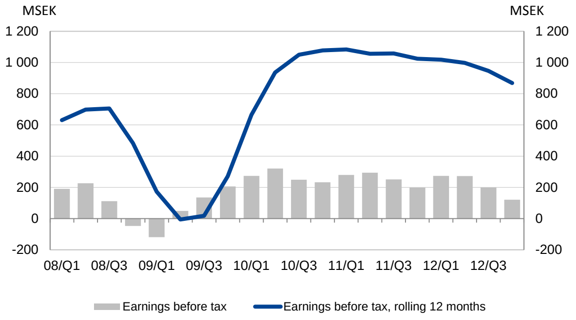
The Swedish krona depreciated somewhat against the euro but appreciated significantly against the Japanese yen in another quarter of high volatility. Earnings from currency forward contracts intended to hedge balance sheet positions in foreign currencies were MSEK 3 (7), but were offset by negative currency differences on valuation at closing day rates. Accordingly, the related income effect was slightly negative. The average exchange rates in the quarter were less favourable than the corresponding period of 2011, which generated a negative income effect on ongoing payment flows. Thus the forward contracts intended to hedge payment flows produced a profit of MSEK 21 (1). Höganäs estimates that the overall currency effect on operating income reduced income by some MSEK 12 year on year.

Selling and administrative expenses were negatively affected by expenses for severance pay and collective agreement occupational pensions relating to staff reductions, MSEK -21.

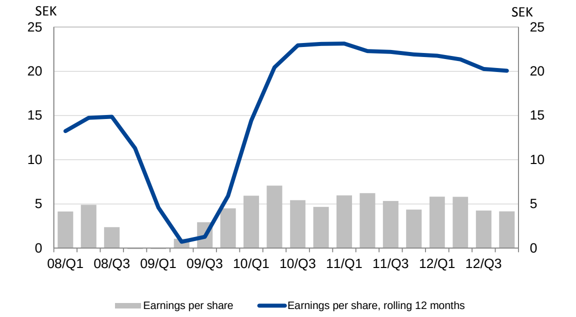
Other operating income and operating expenses were MSEK 11 (2) overall. The negative currency differences in the quarter exceeded the corresponding earnings from forward contracts somewhat but were countered by research subsidies of MSEK 5 received and an MSEK 5 sale of CO_2 emission rights.

Operating income was MSEK 131 (212). The fourth-quarter operating margin was down year on year, at 8.8% (13.0) mainly because of lower volumes, poorer cost absorption and non-recurring expenses for staff reductions. Income before tax was MSEK 121 (199). Income after tax was MSEK 145 (152). The tax expense for the year was positively affected by MSEK 34 by a restatement of deferred tax due to a new, lower Swedish corporation tax rate, effective 2013 onwards. The tax expense for the fourth quarter takes this into account.

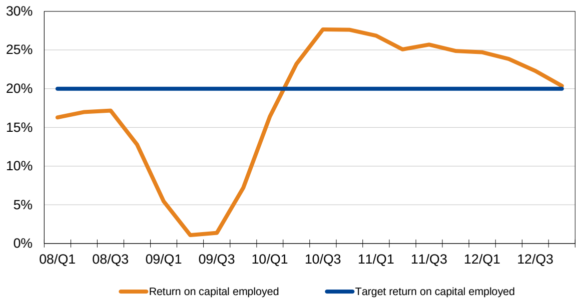
Income before tax



Earnings per share



Returns



The period January – December 2012

Gross profit was MSEK 1,651 (1,778). Lower sales volumes and currency effects had a negative effect on gross profit, while price increases implemented and savings measures had a positive effect. The production rate at plants was approximately in line with the first half-year of the previous year. Production rates were adjusted down in the third quarter due to reducing demand. Production was downscaled further in the fourth quarter, to reduce inventory levels.

Höganäs judges that overall, metal price surcharges largely compensated for raw materials price fluctuations in the period. Falling prices of those metals hedged resulted in positive hedging earnings of MSEK 17 (28) in the year, which was offset by inventory losses of the same scale.

The Swedish krona appreciated overall against other currencies in another year of high volatility. Earnings from currency forward contracts intended to hedge balance sheet positions in foreign currencies were MSEK 21 (-7), but were offset by negative currency differences on valuation at closing day rates. The income effect of this was insignificant. But average exchange rates in the year were somewhat more positive than the corresponding period of 2011, which generated a positive income effect on ongoing payment flows. Accordingly, those forward contracts intended to hedge payment flows would normally have generated a loss, but due to high currency volatility and sales estimate revisions in 2012, positive earnings were achieved overall, of MSEK 17 (81). Höganäs estimates that the overall currency effect on operating income reduced income by some MSEK 52 year on year, and arose primarily due to the income difference from these forward contracts. The variation in average rates of exchange in 2011 compared to 2010 was considerably larger and thus generated significantly higher earnings from forward contracts in the comparative period of 2011.

Selling and administrative expenses were up on the previous year, due to expenses for staff reductions in the fourth quarter and expenses related to the 2007-2009 staff stock option plan. In addition, a few expenses have been reclassified from selling expenses to administrative expenses. Other operating income and operating expenses were a total of MSEK 16 (13).

Operating income amounted to MSEK 903 (1,071). The operating margin was lower than the previous year, 13.5% (15.1), mostly due to lower volumes, poorer cost absorption, expenses for staff reductions and currency effects. Income before tax was MSEK 868 (1,024). Income after tax was MSEK 698 (762). The tax expense for the year was positively affected by MSEK 34 by a restatement of deferred tax in light of a new Swedish corporation tax rate, effective 2013 onwards.

Return on capital employed

Return on capital employed for the past 12 months was 20.3% (24.9). Excluding non-recurring expenses in the fourth quarter, returns were 21.3%. Returns remain at a good level due to a sharp focus on capital tied-up. The negative earnings effect due to weaker demand was offset by lower capital tied-up, despite Höganäs making some capacity-increasing investments in the less capital-intensive part of the value chain.

Progress of Höganäs' business areas (operating segments)

COMPONENTS

The Components business area, which represents some 75% of consolidated sales, covers all powder that is refined into components. Höganäs delivers high-grade metal powder that is refined into components in finished, or semi-finished, form by component producers. In turn, they deliver their components through product or system producers, or directly to OEMs (Original Equipment Manufacturers).

	Fourth quarter		Accumulated	
MSEK	2012	2011	2012	2011
Net sales	1 134	1 249	5 119	5 378
Operating income	97	152	680	766
Operating margin, %	*8,6*	*12,2*	*13,3*	*14,2*
Assets			4 542	4 708
Liabilities			709	826
Investments	97	123	334	356
Depreciations/amortisation	64	60	246	223
Reversal of write-downs	-	8	-	8

Sales

Net sales for the year were MSEK 5,119 (5,378), which is 5% lower than the previous year, driven by a 6% decrease in sales volumes. Excluding the one-off deliveries to Hoeganaes Corporation (GKN) in 2011, sales volumes were down nearly 2% year on year. Price increases and currency effects had a positive impact on net sales, while lower metal price surcharges had a negative effect.

Primarily, the year featured a strong recovery in Asia, and a gradually weaker market in Europe.

In Europe, this meant more significant inventory adjustments than in the previous year. After a poor fourth quarter 2011, sales volumes increased sequentially by more than 15% in the first quarter 2012. Subsequently, continuously decreasing car production numbers, combined with lower industrial production and a progressively bleaker outlook, led to customers downscaling sales forecasts, causing inventory adjustments and negatively affecting Höganäs' sales, primarily in the fourth quarter, but also in the third. All major markets apart from Russia and Spain weakened noticeably in the year. In Russia, Höganäs made significant advances with domestic component manufacturers in the second half-year, through successful launches of the latest generation of metal powder solutions. Spain appears to have bottomed out in the first half-year 2012, with slight growth occurring in the second half-year, compared to the corresponding period of the previous year.

Sales were basically comparable to the previous year in North America, adjusted for the non-recurring volumes delivered to Hoeganaes Corporation in 2011. Demand from customers with exposure to the car industry was positive. However, weaker export markets and declining domestic car sales after a peak in the second quarter meant that the inventory levels of certain manufacturers increased. Accordingly, inventory adjustments were also reported in the second half-year, which affected sales volumes negatively. Sales were also being restrained somewhat by continued fairly poor demand conditions from customers exposed to non-automotive manufacturing, such as subcontractors for garden products, household equipment, etc.

Sales volumes in South America were up year on year in the second half-year, but weaker in the first half-year due to higher inventory levels in the car industry at the beginning of the year. Government stimulus measures had an impact in the second half-year, with increased production numbers reported for domestic manufacturing. Car production was positively affected by a tax easing programme for domestically produced vehicles. Originally, this programme was to run until the end of August 2012, but has been extended until July 2013.

Sales in Asia returned good growth in the year. The effect of the recovery was significant in Japan and Southeast Asia after last year's production disruptions caused by the tsunami and flooding. However, the recovery effect in Japan petered out in the third quarter, and as expected, a significant sales decrease on the previous year was apparent in the fourth quarter. Many customers reported realignment to lower production rates, and concerns over the island conflict between Japan and China caused production downscaling by Japanese auto manufacturers in China. Demand in India was negatively affected by the combination of repeated interest rate increases and rising fuel prices. Car sales in the second half-year were far below sector estimates. This meant that some car manufacturers shut down production periodically to adapt their production rates to market conditions. Despite this, estimates indicate that inventory levels in the Indian car industry were high late in the year.

Income

Operating income for the period was MSEK 680 (766) and the operating margin was 13.3% (14.2).

Lower sales volumes, a strong Swedish currency, lower cost absorption in production plants and MSEK 33 of expenses for staff reductions had a negative effect on income. Price increases implemented and savings measures had a positive effect but could not fully compensate for this.

CONSUMABLES

The Consumables business area, which represents some 25% of consolidated sales, covers those powders used in processes like brazing, welding and surface coatings, and in the chemical and metallurgical process industries. Höganäs' customers include producers of welding materials, users of brazing and surface coating technologies and producers of food and animal feed.

MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Net sales	355	383	1 593	1 703
Operating income	34	60	223	305
Operating margin, %	*9,6*	*15,7*	*14,0*	*17,9*
Assets			1 148	1 129
Liabilities			176	215
Investments	29	41	106	110
Depreciations/amortisation	18	18	73	70
Reversal of write-downs	-	3	-	3

Sales

Net sales for the period were MSEK 1,593 (1,703), down 6% year on year.

The volume contraction of 5% affected sales negatively. Additionally, reducing prices for alloy metals had a negative effect on sales, while exchange rate fluctuations had a somewhat positive effect on sales.

In Europe, overall sales volumes were down year on year in most market segments and countries. Lower activity across much of manufacturing brought weaker demand overall than the corresponding period of 2011. However, some improvement occurred in the fourth quarter, which was better than the third, and basically comparable with the second quarter. Sales to priority segments such as surface coating and brazing achieved high sales growth compared to the weak fourth quarter 2011, although segments such as welding powder also made gains, and sales volumes in the fourth quarter were up 8% on 2011 overall.

Sales volumes decreased somewhat in North America due to a continued downturn in the sale of friction products, a result of the relocation of production from North America to Asia and Mexico. In other key segments, including iron powder for the welding industry and for surface coatings, volumes increased year on year.

Year-on-year growth was apparent in South America from the second quarter onwards. In the first quarter, the year-on-year comparison was disrupted by Höganäs discontinuing sales of one specific type of purchased iron alloys to the Brazilian metal industry. This business, with products manufactured by a third party and imported to Brazil, achieved poorer profitability in 2011 due to price fluctuations on alloy metals and currencies, and accordingly, was discontinued. The largest segment, iron powder to ferro-niobium manufacture (for micro-alloying of high-strength steel) increased substantially on the previous year. However, a significant seasonal downturn occurred in the fourth quarter compared to the previous quarter, just as in the previous year, when a major customer significantly downscaled production in December due to inventory adjustments for a weaker export market, which exerted a significant impact on Höganäs' sales in South America.

Overall, sales in Asia were down on 2011, and presented a mixed picture. Growth in priority segments such as surface coating and brazing was positive, although sales in other segments, such as the welding industry, decreased. Weakening demand conditions were generally apparent in this segment. Delays to major infrastructure projects and high distributor inventory levels were reported in India. Reduced shipbuilding caused reduced demand for welding powder in Korea, and some customers made inventory adjustments in the second half-year. Sales to the oxygen absorption product segment, which were in high growth in Asia in 2011, were volatile in 2012. The beginning of the year was restrained by high customer inventory levels, while good growth was achieved in the fourth quarter. But in overall terms, sales decreased in the year.

Income

Operating income for the period was MSEK 223 (305) and the operating margin was 14.0% (17.9).

The reduction in sales volumes and stronger Swedish krona affected income negatively. However, the negative currency effect is less for Consumables than for Components, because the business area's value-added has lower exposure to the Swedish currency. Price increases implemented and savings measures had a positive effect.

Volume contraction has resulted in lower cost absorption in production plants compared to the corresponding period of the previous year. MSEK 11 of expense for staff reductions were charged to income.

Falling metal prices resulted in a positive metal hedging out-turn, which was offset by inventory losses of the same scale.

Group highlights (in the reporting period)

FOURTH QUARTER

Höganäs' high-alloy powder strengthens its positioning in valves

TRW Engine Components selected Höganäs as a key supplier of high-alloy metal powder. Deliveries commenced in autumn 2012 and a quality audit late in the year indicated very satisfactory results. Engine valves are one of TRW's main products. The company manufactures some 500 million units annually.

Höganäs is currently the biggest source of powder for surface coating of valves. The company possesses in-depth knowledge of this application for the automotive and marine industries. This enables Höganäs to assist customers in re-engineering their processes.

The collaboration with TRW was initiated by trialling Höganäs' powder, tailored for TRW's specifications; the quality and performance standards for surface coating of valves were well exceeded.

The estimated short-term potential for TRW's European production facilities is a 5-10% increase in Höganäs' total sales volumes of surface coating powder, which amount to over 2,000 tons. The estimated global potential for deliveries to TRW is twice these percentage numbers.

TRW Engine Components, which has manufacturing in Germany, France, the Czech Republic, China, Thailand, the US, Mexico and Brazil, is part of TRW, one of the world's largest Tier 1 system suppliers to the automotive industry, which has its registered office in the US. TRW supplies all the major auto producers.

THIRD QUARTER

Adapting production capacity and our organisation

To address weakening demand on the global market, Höganäs is adapting its production capacity and organisation. As a result of necessary capacity adaptations, in addition to the staff downsizing affecting 15 people in the third quarter, the company has also commenced negotiations with the unions affected regarding downsizing of some 100 staff in Sweden, the US, Belgium and Brazil. Some plants are also expected to shut down production temporarily for an extended period in December.

The outlook on the car market deteriorated through the autumn and the recession has intensified. Demand from the company's customers has decreased. Unfortunately, there are no signs at present that this situation will improve in the short term. For this reason, the Höganäs group needs to adapt staffing at its plants to prevailing market conditions. A total of some 100 people are affected, about 30 being temporary employees. Some 75 of the people affected are in Sweden. Of these, some 40 are white-collar workers and the remainder blue-collar workers.

This measure is expected to reduce operating expenses by some MSEK 60 yearly from 2013 onwards. The non-recurring expense of this measure is estimated at some MSEK 60 and will be charged to operating income in the fourth quarter 2012. In addition, against the background of poor demand conditions, work has commenced to identify further cost savings in 2013.

Höganäs acquires Fcubic AB—moves into the additive manufacturing segment

In September, Höganäs exercised an option to acquire 100% of the company Fcubic AB, with registered office in Gothenburg, Sweden. Fcubic AB, which mainly consists of a number of patents, develops additive manufacturing technology, also known as 3D printing. Höganäs has named this new business Digital Metal®. Completion of this transaction was on 1 November 2012.

Additive manufacturing is a process where components are constructed in layers direct from a three-dimensional CAD drawing. The technology eliminates the need for complex and expensive tooling, prototypes and programming. This cuts development lead-times, minimises wastage and offers greater precision of design and tolerances. At present, this technology is primarily used for rapid prototyping and manufacturing small components.

By combining additive manufacturing with metal powder, Höganäs is opening up new opportunities. Digital Metal® has good prospects of strengthening the metal powder market because it is expected to become an important technology for component and system manufacture. It will create substantial value for customers that require continuously improved performance, minimal development lead-times and customer-adapted components on a large scale. Through this transaction, Höganäs is acquiring the best available technology in the segment. Höganäs now intends to utilise its expertise and know-how in the metal powder industry to expand the application of additive manufacturing of components. A large number of complex components, with masses of up to 1 kg in sectors such as manufacturing, dental care, medicine and aviation, can be produced from metal powder. Other relevant segments include design and jewellery, with products tailored to individual consumers.

With its acquisition of Fcubic, Höganäs is taking the first step towards shaping the future market of additive manufacturing. Current estimates of market potential are USD 1 billion, primarily in consumer design, medicine, dental care, aviation and manufacturing. However, this market remains in its infancy, which means its true potential is hard to quantify.

SECOND QUARTER

Höganäs produces a new material for metal injection moulding (MIM) components

Höganäs has made major advances in the composition of material for metal injection moulding components, (MIM). As a result of our work on accumulating know-how end to end in the value chain for these components, we have discovered unique alloys, which combined with the right binding agents, enable the use of coarser powders for MIM components. This makes it possible to produce larger components through injection moulding simultaneous with a significant reduction in cost compared to traditional, finer MIM powders.

MIM is a component production technology similar to that used for producing plastic components. At present, MIM is used to produce small — sizes around 10 g — components with complex geometry, typically for use in dental applications and surgery. Traditionally, the MIM process has to be based on fine metal powders, with particles as small as 20 microns (0.02 mm). Such powders are very costly to produce, limiting their application to small, complex components where there is no more suitable technology.

Alongside its partner, Höganäs succeeded in injection moulding and sintering based on coarser particles, of 45 microns. This notably alters the costing, enabling the production of larger components (several hundred grams) using this technology. Potential customers are participating with Höganäs in the development process. Testing is being conducted using Höganäs' powder mixes and feedstock (ready mixes of metal powder and binding agents). In the process, Höganäs is bringing its know-how of the manufacturing process, equipment settings, tooling, injection moulding pressure and sintering, where the binding agent is also removed.

The estimated value of the current market for MIM components is USD 1 billion. Höganäs' starting-point is that the result of current development work is for market value to double over time.

FIRST QUARTER

Höganäs delivers metal powder for laser surface coating of valve seats

In the first quarter, Höganäs commenced deliveries of a nickel-based metal powder to Geometrix Laser Solutions Private Ltd. in Hyderabad, India, for surface coating of valve seats using laser cladding for industrial applications. This is a new market segment for Höganäs and this is the first time laser cladding has been used for this type of valve seat.

Geometrix Laser Solutions has developed a new technology for smelting surface coating powder onto the valve seat material in collaboration with Höganäs. Traditionally, TIG wire welding is utilised, and apart from significantly lower cost and superior reliability, the new laser technology brings major benefits in the form of lower consumption of materials, reduced effect on the substrate material, higher production efficiency and lower spoilage.

Valves are used to regulate the flow of liquids or slurries like oil, water or chemicals, and are subject to higher corrosion and wear strength standards. The valve seat is the surface on which the valve rests in its closed position. The rapid development of state-of-the-art laser technology is reducing the price of equipment and the number of applications of metal powder is expected to increase briskly. The estimated value of the market for this type of valve for industrial applications is MSEK 300. Ultimately, this technology may also be usable in other application segments, such as the energy sector or for large diesel engines.

Höganäs already delivers its powder products to other valve seat segments, but also for valves for the automotive industry and marine engines, for example, where the powder is sprayed onto valves using PTA (plasma transferred arc) technology.

Other financial information

FINANCIAL POSITION

The equity/assets ratio was 65.7% at the end of the year, against 59.2% at year-end 2011. Shareholders' equity per share was SEK 108.23, against SEK 100.96 at the end of 2011.

Consolidated financial net debt was MSEK 485 at year-end, a decrease of MSEK 394 on the previous year-end due to strong cash flow. Apart from the decrease in net debt, cash flow financed a cash dividend (MSEK 348) and a fairly high investment level in property, plant and equipment. The net debt/equity ratio at the end of the year was 13%, compared to 25% at year-end 2011.

The net financial income and expense was MSEK -35 (-47). Höganäs' interest expenses have been negatively affected since the previous year due to somewhat higher interest rates on short credits. This was offset by a lower debt/equity ratio. In the period overall, the revaluation effect of short credits in foreign currency had a MSEK 5 negative impact on net financial income and expense, compared to a negative MSEK 20 effect for the corresponding period of 2011.

Cash and cash equivalents were MSEK 148 compared to MSEK 82 at the end of 2011. The reason for this amount being relatively high at year-end was a capital injection into the new company incorporated for starting up the new mixing plant in Korea. In addition to cash and cash equivalents, there are un-utilised credit facilities of MSEK 1,913, of which MSEK 1,637 consists of a new, five-year credit facility that runs from December 2012 onwards.

CASH FLOW

Cash flow from operating activities was MSEK 1,122 (803). Cash flow improved because the significant volume growth in the first quarter 2012 compared to the fourth quarter 2011 was manageable without any great increase in working capital, and working capital has then reduced as demand has decreased. The comparison is also positively affected by a preliminary tax payment made in the first quarter 2011 due to the sharp increase in profit in 2010.

Financing activities affected cash flow by MSEK -615 (-353). Utilisation of confirmed credit facilities decreased by MSEK 98 in the period, while utilisation of other credit facilities decreased by MSEK 169. A cash dividend of MSEK 348 was executed.

INVESTMENTS, DEPRECIATION AND AMORTISATION

Consolidated net investments in fixed assets were MSEK 437 (472). Depreciation and amortisation of fixed assets was MSEK 319 (293).

HUMAN RESOURCES

There were 1,656 employees at the end of the period, against 1,707 at the end of 2011, or 1,744 at the mid-point of 2012.

SHARE CAPITAL

On 31 December 2012, Höganäs' share capital was unchanged at SEK 175,494,660, divided between 981,000 class A shares and 34,117,932 class B shares, all with a quotient value of SEK 5.00 per share.

RISKS AND UNCERTAINTY FACTORS

The group's and parent company's significant risk and uncertainty factors include business risks in the form of high exposure to the automotive industry. Financial risks, primarily currency risks and metal price risks, are additional. No other significant risks are considered to have arisen in addition to those reviewed in Höganäs' Annual Report 2011 (see the risk management section and Note 31 offering a more detailed review of the group's and parent company's risk exposure and risk management).

OUTLOOK

Essentially, the outlook is unchanged compared to the assessment made in the Third-quarter Interim Report on 24 October. How much the debt and liquidity crisis will affect global industrial activity in 2013 remains uncertain. Underlying demand conditions appear strong in South America and Asia. However, in the short term, sales in Asia will be adversely affected by the recovery effect in Japan in 2012, after a weak 2011 due to the tsunami, not being repeated in 2013. Moreover, the Indian economy remains fairly weak, and Asian export industries are being affected by poor market conditions in Europe. Our view is that in the short term, demand will improve in North America, but that the recovery will remain volatile. European market conditions were notably weaker in 2012 due to decreasing domestic demand, and there would appear to be few prospects of any rapid improvement. Höganäs expects metal prices and exchange rates to remain volatile, which will also affect income performance.

The previous outlook was as follows: "How much the debt and liquidity crisis will affect global industrial activity beyond 2012 remains uncertain, but the downturn in the latter half of 2012 is now expected to be more apparent than previously, and affect all regions. Underlying long-term demand conditions appear strong in South America and Asia. However, in the short term, sales in Asia will be negatively affected by the recovery in Japan after a poor 2011 due to the tsunami now being largely complete. The Indian economy remains relatively weak, and Asian exports are being affected by poor market conditions in Europe. In the short term, Höganäs thinks that demand will improve in North America, but the rate of recovery will remain volatile. European market conditions have been noticeably weaker in 2012 due to decreasing domestic demand, and there appear to be few prospects of any rapid improvement. Metal prices and exchange rates are expected to remain volatile, which will also affect income performance."

PARENT COMPANY

The operations of the parent company (Höganäs AB) exclusively consist of group-wide operations, while the trading component consisting of Europe Region is operated in a separate subsidiary, Höganäs Sweden AB.

Comments on the parent company's net sales, results of operations, financial position and transactions with related parties are not considered of material significance to understand progress of the company's financial position and results of operations. Essentially, transactions with related parties are unchanged compared to the statement in the Annual Report for 2011. The parent company's results of operations and financial position are presented in the final section of this Report.

ACCOUNTING PRINCIPLES

This condensed interim report for the group has been prepared in accordance with IAS 34 Interim Financial Reporting and applicable regulations in the Annual Accounts Act. The interim report for the parent company has been prepared in accordance with the Annual Accounts Act's chapter 9, Interim Reporting. The group and parent company have applied the same accounting principles and methods of computation as in the latest Annual Report. And the parent company's accounting principles are unchanged compared to the previous year apart from the recognition of group contributions. Previously, group contributions were recognised in income from participations in group companies. Now group contributions are recognised as appropriations. Comparative figures for the parent company have been restated.

NOMINATION COMMITTEE AND ANNUAL GENERAL MEETING

In accordance with a resolution at the AGM in May, a Nomination Committee has been formed and elected. Its members are as follows:

Jenny Lindén Urnes, Lindéngruppen AB and Chairman of the Nomination Committee, Anders G Carlberg, Chairman of Höganäs AB, Anders Nyberg, AB Industrivärden, Henrik Didner, Didner & Gerge Fonder AB and Birger Gezelius, Swedbank Robur Fonder.

The AGM will be held at 3 p.m. on 29 April 2013 at HB-hallen, Höganäs, Sweden.

DIVIDEND

The Board of Directors is proposing a dividend of SEK 10.00 per share (10.00). The record date is scheduled for 3 May 2013.

FINANCIAL INFORMATION

The Annual Report is scheduled for publication in week 15 (week ending 12 April) 2013 at the company's website www.hoganas.com
First-quarter Interim Report 2013, 24 April

The Annual General Meeting will be held on 29 April 2013

Second-quarter Interim Report 2013, 18 July
Third-quarter Interim Report 2013, 23 October

STREAMED PRESS CONFERENCE

Alrik Danielson, CEO and President, and Sven Lindskog, Chief Financial Officer, will present this Report in a conference call at 10:30 a.m. on 6 February 2013.

The press conference will be streamed at: www.hoganas.com / Investor Relations / Conference Call. It is open to journalists, analysts and investors. Participants are welcome to call on +46 (0)8 505 56474, +44 (0)203 364 5371 or +1 877 679 2993.

Alrik Danielson

CEO and President

Höganäs AB (publ)

Höganäs, Sweden, 6 February 2013

NB:

The information in this Report is mandatory for Höganäs AB (publ) to publish pursuant to the Swedish Securities Markets Act. This Report has not been reviewed by the company's auditors. The information was submitted for publication at 9:00 a.m. on 6 February 2013.

FOR MORE INFORMATION

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Consolidated Income Statement

MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Net sales	1 489	1 632	6 712	7 081
Cost of goods sold	-1 166	-1 240	-5 061	-5 303
Gross profit	**323**	**392**	**1 651**	**1 778**
Selling expenses	-68	-67	-270	-279
Administrative expenses	-91	-80	-325	-284
Research and development costs	-44	-35	-169	-157
Other operating income	13	3	20	15
Other operating expenses	-2	-1	-4	-2
Operating income	**131**	**212**	**903**	**1 071**
Financial income	2	4	10	11
Financial expenses	-12	-17	-45	-58
Income before tax	**121**	**199**	**868**	**1 024**
Tax	24	-47	-170	-262
Net income	**145**	**152**	**698**	**762**
Net income attributable to:				
Parent company shareholders	145	152	698	762
Non-controlling interests	0	0	0	0
Total earnings for the period	**145**	**152**	**698**	**762**
Earnings per share for the period:				
Before dilution, SEK	4,16	4,37	20,04	21,90
After dilution, SEK	4,16	4,37	20,04	21,90
Average number of shares outstanding:				
Before dilution ('000)	34 805	34 805	34 805	34 805
After dilution ('000)	34 805	34 805	34 805	34 805
Number of treasury shares at end of period ('000)	294	294	294	294
Average number of treasury shares ('000)	294	294	294	294

Consolidated Statement of Comprehensive Income

MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Net income	**145**	**152**	**698**	**762**
Other comprehensive income				
Translation difference	-13	1	-293	21
Hedging of currency risk in foreign operations	3	-14	142	-59
Cash flow hedges	4	-23	108	-148
Tax attributable to other comprehensive income	26	-20	-54	47
Other comprehensive income for the period	**20**	**-56**	**-97**	**-139**
Comprehensive income for the period	**165**	**96**	**601**	**623**
Earnings per share for the period:				
Before dilution, SEK	4,74	2,76	17,27	17,90
After dilution, SEK	4,74	2,76	17,27	17,90
Comprehensive income for the period attributable to:				
Parent company shareholders	165	96	601	623
Non-controlling interests	0	0	0	0

Consolidated Statement of Financial Position—Summary

MSEK	31-Dec 2012	31-Dec 2011
Assets		
Intangible fixed assets	326	301
Tangible fixed assets	2 546	2 556
Long-term receivables	89	88
Deferred tax assets	32	35
Total fixed assets	**2 993**	**2 980**
Inventories	1 564	1 701
Current receivables	1 030	1 173
Liquid funds	148	82
Total current assets	**2 742**	**2 956**
Total assets	**5 735**	**5 936**
Shareholder's equity and liabilities		
Shareholders' equity	**3 767**	**3 514**
Long-term interest-bearing liabilities	474	819
Other long-term liabilities	48	40
Provisions	22	23
Deferred tax liabilities	418	370
Total long-term liabilities	**962**	**1 252**
Current interest-bearing liabilities	151	133
Other current liabilities	855	1 037
Total current liabilities	**1 006**	**1 170**
Total liabilities	**1 968**	**2 422**
Total shareholders' equity and liabilities	**5 735**	**5 936**
Pledged assets	51	59
Contingent liabilities	75	85

Consolidated Statement of Changes in Shareholders' Equity—Summary

MSEK	31-Dec 2012	31-Dec 2011
Opening shareholders' equity	3 514	3 239
Comprehensive income for the period	601	623
Dividends	-348	-348
Closing shareholders' equity	**3 767**	**3 514**

Consolidated Statement of Cash Flows—Summary

MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Cash flow from operating activities before changes in working capital	200	188	1 047	991
Changes in working capital	120	79	75	-188
Cash flow from operating activities	**320**	**267**	**1 122**	**803**
Cash flow from investing activities	-135	-176	-437	-472
Cash flow from financing activities	-121	-108	-615	-353
Cash flow for the period	**64**	**-17**	**70**	**-22**
Liquid funds, opening balance	83	99	82	106
Exchange rate differences in liquid funds	1	0	-4	-2
Liquid funds, closing balance	**148**	**82**	**148**	**82**

Key indicators

MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Net sales	1 489	1 632	6 712	7 081
Operating income	131	212	903	1 071
Operating margin, %	*8,8*	*13,0*	*13,5*	*15,1*
Capital employed	-	-	4 400	4 475
Return on capital employed, % (latest 12 months)	-	-	*20,3*	*24,9*
Equity	-	-	3 767	3 514
Return on equity, % (latest 12 months)	-	-	*19,2*	*22,6*
Financial net debt	-	-	485	879
Debt/equity ratio, multiple	-	-	0,13	0,25
Interest coverage ratio, multiple	-	-	25,8	22,8
Key figures per share [1]				
Earnings per share, SEK	4,16	4,37	20,04	21,90
Shareholders´equity per share, SEK	-	-	108,23	100,96
Operating cashflow per share, SEK	9,19	7,67	32,24	23,07

¹ Based on 34,805,132 shares (34,805,132), which corresponds to the number of shares outstanding as of 31 December 2012 (31 December 2011), after dilution.

Quarterly Income Statement—Summary

MSEK	2012 Q4	Q3	Q2	Q1	2011 Q4	Q3	Q2	Q1	2010 Q4	Q3	Q2	Q1
Net sales	1 489	1 602	1 808	1 813	1 632	1 810	1 869	1 770	1 612	1 728	1 783	1 548
Cost of goods sold	-1 166	-1 224	-1 333	-1 338	-1 240	-1 373	-1 385	-1 305	-1 198	-1 277	-1 261	-1 094
Gross profit	**323**	**378**	**475**	**475**	**392**	**437**	**484**	**465**	**414**	**451**	**522**	**454**
Selling and administrative expense	-159	-127	-153	-156	-147	-129	-146	-141	-130	-146	-149	-146
Research and development costs	-44	-42	-44	-39	-35	-38	-44	-40	-40	-39	-40	-26
Other operating income and expenses	11	-4	7	2	2	5	8	-2	-6	-5	0	0
Operating income	**131**	**205**	**285**	**282**	**212**	**275**	**302**	**282**	**238**	**261**	**333**	**282**
Net financial income and expenses	-10	-5	-12	-8	-13	-24	-8	-2	-5	-11	-6	-8
Income before tax	**121**	**200**	**273**	**274**	**199**	**251**	**294**	**280**	**233**	**250**	**327**	**274**
Net income	**145**	**148**	**202**	**203**	**152**	**185**	**217**	**208**	**162**	**189**	**246**	**207**

Parent Company Income Statement*—Summary

MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Net sales	43	40	169	169
Selling expenses	-14	-13	-51	-54
Administrative expenses	-48	-40	-167	-150
Research and development costs	-48	-52	-186	-172
Other operating income and expenses	5	5	6	7
Operating income	**-62**	**-60**	**-229**	**-200**
Earnings on particpations in Group companies	9	14	123	131
Financial income and expenses, net	12	5	154	-64
Income after financial items	**-41**	**-41**	**48**	**-133**
Appropriations	410	487	410	487
Income before tax	**369**	**446**	**458**	**354**
Tax	-92	-93	-93	-66
Net income	**277**	**353**	**365**	**288**
Depreciation/amortisation for the period	9	8	35	31

Parent Company Statement of Comprehensive Income

MSEK	Fourth quarter 2012	Fourth quarter 2011	Accumulated 2012	Accumulated 2011
Net income	**277**	**353**	**365**	**288**
Other comprehensive income				
Cash flow hedges	0	4	3	4
Tax attributable to other comprehensive income	0	-1	-1	-1
Other comprehensive income for the period	**0**	**3**	**2**	**3**
Comprehensive income for the period	**277**	**356**	**367**	**291**

* The parent company’s accounting principles for group contributions changed in 2012, so that group contributions received/paid are now recognized under “appropriations” in the Income Statement. In 2011, they were recognized as “income from participations in group companies.” Accordingly, comparative figures have been adjusted by MSEK 490 net for these group contributions received.

Parent Company Balance Sheet—Summary

MSEK	31-Dec 2012	31-Dec 2011
Assets		
Intangible fixed assets	65	75
Tangible fixed assets	129	104
Financial fixed assets	3 920	3 841
Total fixed assets	**4 114**	**4 020**
Current receivables	133	154
Liquid funds	3	0
Total current assets	**136**	**154**
Total assets	**4 250**	**4 174**
Shareholder's equity and liabilities		
Shareholders' equity	**1 583**	**1 564**
Untaxed reserves	**149**	**61**
Provisions	**12**	**5**
Long-term interest-bearing liabilities	755	1 095
Other long-term liabilities	859	769
Total long-term liabilities	**1 614**	**1 864**
Short-term interest-bearing liabilities	515	304
Other current liabilities	377	376
Total current liabilities	**892**	**680**
Total shareholders' equity and liabilities	**4 250**	**4 174**
Pledged assets	10	10
Contingent liabilities	303	344

Parent Company Statement of Changes in Shareholders' Equity—Summary

MSEK	31-Dec 2012	31-Dec 2011
Opening shareholders' equity	1 564	1 621
Comprehensive income	367	291
Dividends	-348	-348
Closing shareholders' equity	**1 583**	**1 564**