

# INTERIM REPORT

Second quarter 2013

## Second quarter 2013 (compared to corresponding period of previous year)

- Net sales were MSEK 1,652 (1,808), down 9% year on year. Sales volumes were up 2%. Demand conditions were better, primarily in North America and China. Sales volumes in Europe were somewhat better than the corresponding period of the previous year, and up marginally on the first quarter of 2013.
- Operating income was MSEK 262 (286), and income after tax was MSEK 193 (203). Higher sales volumes and savings measures had a positive impact on income, while lower production rates in plants compared to the corresponding period of the previous year had a negative effect. The operating margin was 15.9% (15.8).
- Earnings per share before and after dilution for the quarter were SEK 5.56 (5.84).
- Cash flow from operating activities was MSEK 321 (206).

## 1 January – 30 June 2013 (compared to corresponding period of previous year)

- Net sales were MSEK 3,229 (3,621), down 11% year on year. Sales volumes were down 0.3%.
- Operating income was MSEK 512 (569), and income after tax was MSEK 379 (407).
- Earnings per share before and after dilution for the period were SEK 10.90 (11.70).
- Cash flow from operating activities was MSEK 503 (530).
- The net debt/equity ratio at the end of the period was 16%, unchanged on the beginning of the financial year.
- The cash offer to shareholders that Lindéngruppen AB and Foundation Asset Management Sweden AB (FAM) made through jointly held company H Intressenter AB in February 2013, to transfer all the shares of Höganäs AB (publ) to H Intressenter AB, has been extended to 16 August 2013, and increased to a price of SEK 325 per share. Höganäs' Board of Directors has recommended that all Höganäs shareholders accept H Intressenter's revised offer. For more information, see page 8.

## CEO's comments—second quarter: improved market but uncertainty ahead of the autumn

"Global market progress presents a divided picture. We are satisfied to see the progress of our volumes in North America and China, while demand conditions were sluggish on some other emerging markets in the spring. In Europe, we saw a marginal sales increase, thanks to Eastern Europe. Thus, Höganäs' broad geographical diversity meant that sales volumes for the first half-year were fairly good overall. However, to reduce the risk of holding excessive inventories in the autumn, we decided to run lower production volumes than the previous year in the spring, as reflected in our improved cash flow.

Prospects are basically unchanged compared to the assessment made in the Interim Report of 24 April. We have a fundamentally positive view of South America and Asia, even if uncertainty has increased in the short term. Sales growth numbers in Asia in 2013 will also be negatively affected by the recovery effect in 2012, post-tsunami and flooding. In addition, the Indian economy is fairly weak, and Asian exporters will be affected by weak market conditions in Europe. We expect demand to improve in North America, but the rate of recovery will probably remain volatile. In historical terms, European market conditions were also poor in the first half-year 2013, and we still do not see the prospects of this recovering rapidly."

## Income highlights

MSEK	Second quarter		Accumulated		Last 12 months	Full year
	2013	2012	2013	2012		2012
Net sales	1 652	1 808	3 229	3 621	6 320	6 712
Operating income	262	286	512	569	850	907
Operating margin, %	15,9	15,8	15,9	15,7	13,4	13,5
Income before tax	260	274	506	549	829	872
Tax	-67	-71	-127	-142	-156	-171
<b>Net income</b>	<b>193</b>	<b>203</b>	<b>379</b>	<b>407</b>	<b>673</b>	<b>701</b>
Earnings per share before and after dilution, SEK	5,56	5,84	10,90	11,70	19,33	20,13
Return on capital employed, % (12 months)	-	-	-	-	19,2	20,5

## Business areas (operating segments)

Net sales, MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Components	1 282	1 385	2 497	2 771	4 845	5 119
Consumables	370	423	732	850	1 475	1 593
<b>Total</b>	<b>1 652</b>	<b>1 808</b>	<b>3 229</b>	<b>3 621</b>	<b>6 320</b>	<b>6 712</b>

Income, MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Operating income:						
Components	200	218	389	431	641	683
Consumables	62	68	123	138	209	224
<b>Operating income</b>	<b>262</b>	<b>286</b>	<b>512</b>	<b>569</b>	<b>850</b>	<b>907</b>
Net financial income/expenses	-2	-12	-6	-20	-21	-35
<b>Income before tax</b>	<b>260</b>	<b>274</b>	<b>506</b>	<b>549</b>	<b>829</b>	<b>872</b>

Operating margin, %	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Components	15,6	15,7	15,6	15,6	13,2	13,3
Consumables	16,8	16,1	16,8	16,2	14,2	14,1
<b>Total</b>	<b>15,9</b>	<b>15,8</b>	<b>15,9</b>	<b>15,7</b>	<b>13,4</b>	<b>13,5</b>

## Sales by geographical region

Net sales, MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Europe	519	537	1 024	1 108	1 934	2 018
America	514	557	1 010	1 128	1 965	2 083
Asia	619	714	1 195	1 385	2 421	2 611
<b>Total</b>	<b>1 652</b>	<b>1 808</b>	<b>3 229</b>	<b>3 621</b>	<b>6 320</b>	<b>6 712</b>

### 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.

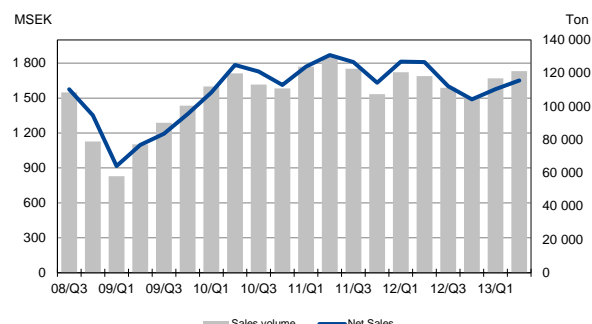
Thus Höganäs can help create the automotive components, white goods, water and exhaust treatment products of the future in collaboration with its customers. Founded in 1797, the company had sales of MSEK 6,712 in 2012, and is quoted on NASDAQ OMX Stockholm's Mid Cap List.

For more information, visit our website: [www.hoganas.com](http://www.hoganas.com).

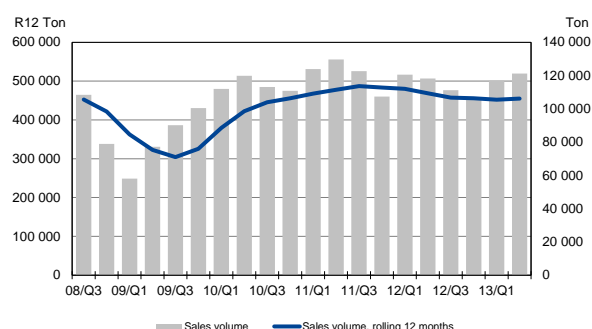
## Group progress

### NET SALES AND VOLUME

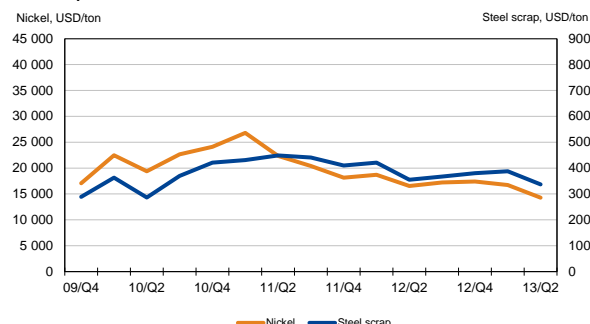
#### Net sales and volume by quarter



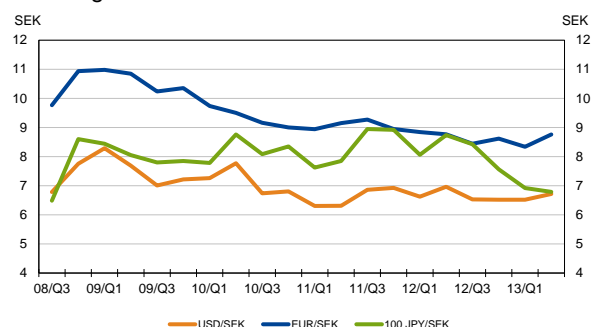
#### Volumes



#### Metal prices



#### Exchange rates



#### Second quarter 2013

Net sales in the second quarter amounted to MSEK 1,652 (1,808), down 9% year on year. Sales volumes were up 2%.

As an effect of falling metal prices, metal price surcharges on all significant metals were lower than in the second quarter 2012. The Swedish krona remained volatile in the quarter. Overall, the currency effect on sales values was 7% negative compared to the previous year.

Sales volumes in Europe were higher than the second quarter 2012, and also somewhat stronger than the first quarter 2013. Positive progress is explained exclusively by demand in Eastern Europe. One potential positive may also be demand in Western Europe not deteriorating notably in the quarter. Sales in Asia featured continued strength in China, but other countries reduced the sales growth. As expected, Japan was weakest, whose recovery was strongest in the corresponding period in 2012. Additionally, sales in India were low due to slow car sales and a fairly poor business cycle. In North America, sales volumes set a new record level by a healthy margin (apart from one-off volumes in 2011), mainly due to steady positive progress for customers exposed to the automotive industry. In South America, sales volumes were up on the second quarter of the previous year, and also somewhat better than the first quarter of 2013. Demand conditions were better for domestic component manufacturers in Brazil, due to healthy car production numbers in the spring.

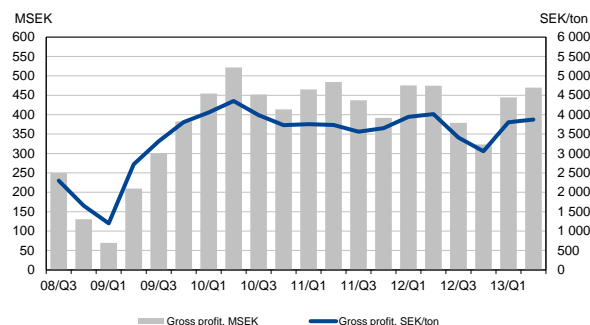
#### The period January - June 2013

Net sales in the period were MSEK 3,229 (3,621), down 11% year on year. Sales volumes were 0.3% lower. Selective base price increases were conducted early in the period, which had a positive impact on sales, while lower metal price surcharges had a negative effect. The currency effect on sales value was 7% negative in year-on-year terms.

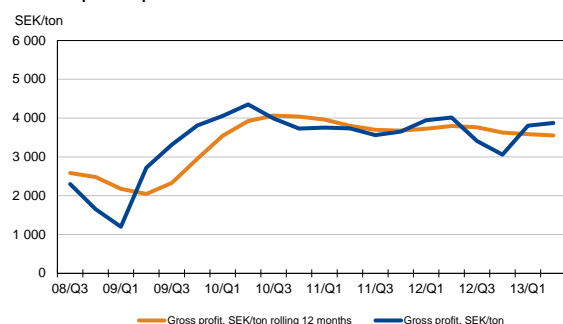
Sales volumes in Europe were down on the corresponding period of 2012. Although the downturn is only marginal, this is from a very low level historically, and austerity measures in Europe appear to be holding the region's recovery in check in several market segments. Sales performance in Asia was pushed in a positive direction by China, while strong comparative figures for 2012, due to the recovery post-tsunami and flooding, meant most other countries reported sales downturns. Healthy growth was achieved in North America, as continued positive car production forecasts and market sentiment improved in many other segments. In South America, high inventories at the customer level caused fairly weak sales early in the period. The growth stimulus measures the Brazilian government has taken in the past two years did generate a gradual positive effect, and volume performance progress in the second quarter was gradually more positive.

## INCOME AND RETURNS

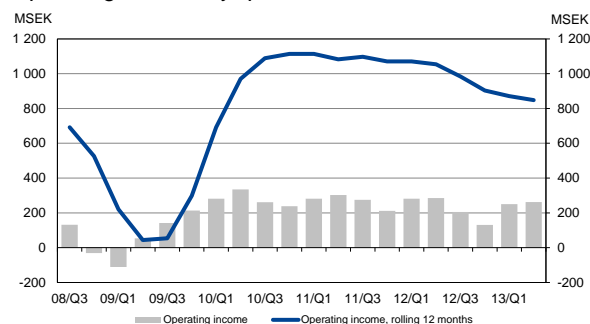
### Gross profit by quarter



### Gross profit per ton



### Operating income by quarter



### Second quarter 2013

Gross income was MSEK 469 (475). Higher sales volumes and savings measures executed had a positive effect on gross income, while lower cost absorption had a negative effect, due to a lower production rate at plants compared to the corresponding period of the previous year. In addition, final reconciliation of the year-2012 profit sharing programme to employees had some negative cost impact. Cost of materials was in a falling trend in the period. Metal price surcharges were lower than the second quarter 2012, but overall, Höganäs estimates that they compensated for raw material price fluctuations. Falling metal prices for those metals hedged had a positive hedging outcome of MSEK 8 (7) in the quarter, although this was offset by inventory losses of the same scale. However, a year-on-year income comparison was affected by temporary positive effects arising in the second quarter 2012 due to falling steel scrap prices, which were reflected in reduced metal price surcharges only as from the third quarter.

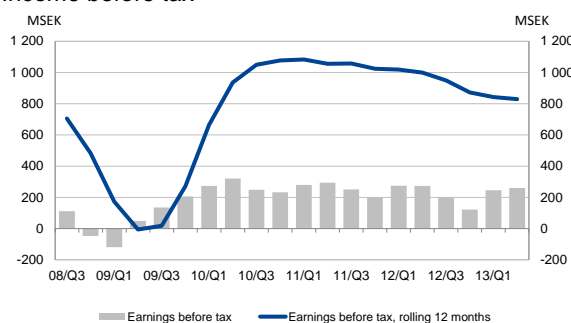
The Swedish krona depreciated against many other currencies in another quarter of high volatility. Earnings from forward contracts on currencies intended to hedge balance sheet positions in foreign currencies offset positive currency differences on valuation at closing day rates without any noteworthy income effect overall. The fact that average exchange rates in the quarter were significantly less positive than in the corresponding period of 2012 had a negative income effect on ongoing payment flows. Thus, those forward contracts designed to hedge payment flows generated positive earnings of MSEK 35 (-13). Höganäs estimates that the total currency effect on operating income was somewhat positive in year-on-year terms, due to relatively positive earnings from these forward contracts, and as the earnings from forward contracts for the corresponding period of the previous year were negative. Administrative expenses were somewhat higher than normal due to them being charged with the expenses for the fairness opinion and legal expenses related to the public bid for the shares of Höganäs.

Research and development expenses were higher than the previous year due to continued initiatives relating to component solutions for new electromagnetic applications and powder-based gear-wheels for gearboxes did imply a higher investment rate. Because some products have now entered their commercialisation phase, income was charged with depreciation according to plan for them, unlike the previous year.

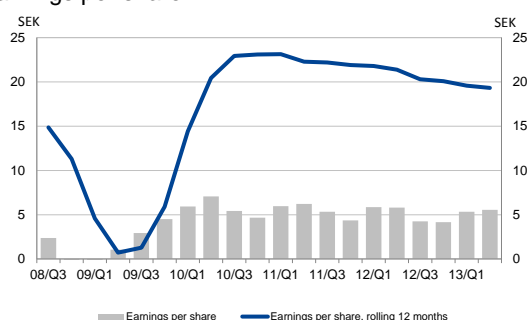
Other operating income and operating expenses were positive overall, totalling MSEK 5 (7). These items were affected in the period, firstly by refunded excise duties in Brazil, and secondly by currency differences. The corresponding number for the previous year was more positive, and wholly related to currency items.

Operating income was MSEK 262 (286). The operating margin for the second quarter was higher than the corresponding period of the previous year, at 15.9% (15.8), partly due to metal price and currency effects on net sales value. Income before tax was MSEK 260 (274). Income after tax was MSEK 193 (203).

## Income before tax



## Earnings per share



## The period January - June 2013

Gross income amounted to MSEK 914 (950). Lower sales and manufacturing volumes had a negative impact on gross income, while savings measures had a positive effect.

Early in the period, cost of materials was fairly stable, but fell notably in the second quarter. Höganäs judges that metal price surcharges compensated for raw material price fluctuations. Positive hedging earnings of MSEK 8 (9) were offset by inventory losses of the same scale. The production rate of plants was progressively stepped up in the first quarter, resulting in cost absorption in the first half-year that was significantly higher than in the fourth quarter 2012, but lower than the corresponding period of the previous year.

The Swedish krona appreciated against other currencies in the first quarter, to then depreciate in the second quarter. Earnings/losses from forward contracts on currencies intended to hedge balance sheet positions in foreign currency offset negative currency differences on valuation at closing day rates, without any notable income effect overall. Because average exchange rates were significantly less than the corresponding period of 2012, a negative income effect on ongoing payment flows was generated. Thus, those forward contracts intended to hedge payment flows generated positive earnings, of MSEK 64 (-16).

Höganäs judges that the total currency effect on operating income was somewhat positive in year-on-year terms, due to favourable earnings from these forward contracts.

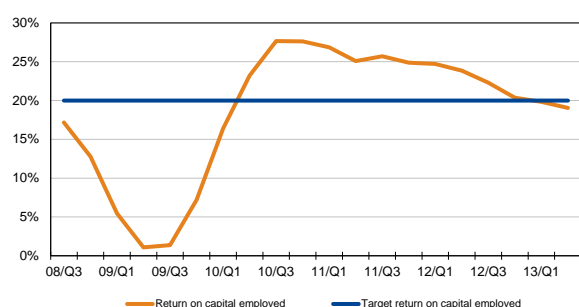
Administrative expenses were somewhat higher than normal because they were charged with certain overheads related to the public offer for the shares of Höganäs.

Research and development expenses were up on the previous year, due to initiatives in segments including component solutions for new electromagnetic applications and powder-based gear-wheels for gearboxes. Because some of these products have entered the commercialisation phase, depreciation according to plan commenced, effective early-2013.

Other operating income and operating expenses were positive overall, amounting to MSEK 13 (9).

Operating income amounted to MSEK 512 (569). The operating margin for the period was somewhat higher compared to the corresponding period of the previous year, at 15.9% (15.7). This is due, primarily, to metal price and currency effects on net sales value, although this was offset by lower cost absorption in production facilities and higher R&D expenses. Income before tax was MSEK 506 (549). Income after tax was MSEK 379 (407).

## Returns



## Return on capital employed

Return on capital employed for the past 12 months was 19.2% (24.0). Returns are at a satisfactory level despite fairly poor market conditions in the past 12 months, resulting in somewhat weaker operating income due to lower sales volumes and restructuring expenses in the fourth quarter 2012.

## 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).

MSEK	Second quarter		Accumulated		Last 12 months	Full year
	2013	2012	2013	2012		2012
Net sales	1 282	1 385	2 497	2 771	4 845	5 119
Operating income	200	218	389	431	641	683
Operating margin, %	15,6	15,7	15,6	15,6	13,2	13,3
Assets			4 715	4 719		4 489
Liabilities			789	965		721
Investments	66	82	129	146	317	334
Depreciations/amortisation	67	61	132	120	258	246

### Sales

Net sales for the period were MSEK 2,497 (2,771), down 10% year on year. This decrease is partly due to metal price surcharges, and partly negative currency effects. Sales volumes were fractionally higher than the corresponding period of the previous year.

Overall, the market featured normal seasonality. Sales volumes were consistently stronger than in the second half-year 2012.

The market in Europe remained poor. The sales volume contraction in the period was limited by healthy growth in Eastern Europe. Car sales in Western Europe remained at very low levels, and no noticeable improvement is apparent. Vehicle production was significantly lower than the first half-year 2012, which limited demand for our customers. Additionally, industrial production generally also deteriorated further. Extensive political austerity measures have triggered negative sentiment on many markets.

North American sales volumes for the period set a new record (apart from the one-off volumes to Hoeganaes Corporation in 2011). The second quarter was significantly stronger than the corresponding period of the previous year, and the first quarter of this year. Steady positive progress for customers exposed to the automotive industry, and gradually improving markets in other segments, drove progress. Despite budget cutbacks in the US in the spring, private consumption and the housing market performed positively, benefiting activity levels across industry. Sales volumes in South America were better than the previous year, after government stimulus programs took effect in late-2012, and increased production numbers for domestic manufacturing were reported. Car production was also positively affected by the tax easing programme for domestic production. Originally, this was intended to conclude in August 2012, but has been extended to December 2013. However, growth early in the period was restrained by fairly high inventory levels across the automotive industry. In addition, vehicle components are

still being imported from other continents for assembly in Brazil to a great extent.

In Asia overall, sales volumes were consistent with the corresponding period of the previous year. Growth was very positive in China. Sales volumes set a new record level in the second quarter, thanks largely to strong momentum in the automotive industry. Car sales were at a high level in the spring, indicatively due to new model launches and manufacturer discounting. This probably mitigated the negative effect of car sales that should have been caused by government measures to limit urban traffic. However, lower sales numbers were apparent in Japan and Southeast Asia after the recovery effect from the previous year from the tsunami and floods of 2011. No notable positive effect from "Abenomics" is discernible yet, but it appears likely that car sales in Japan and forthcoming months will benefit ahead of consumption tax increases scheduled for April 2014. Demand in India was negatively affected by a combination of high interest rates and rising fuel prices. Over the past 12 months, car sales were significantly below sector estimates, and during the spring, many manufacturers reduced their production rates to come in to phase with current sales levels and lower inventories.

### Income

Operating income for the period was MSEK 389 (431), and operating margin was 15.6% (15.6).

Marginally higher sales volumes had a slight positive income effect, although this was offset by lower cost absorption due to reduced production rates at plants. A positive outcome from currency hedging meant the currency effect on income was insignificant overall.

Research and development expenses rose as a result of upscaled initiatives on component solutions for new electromagnetic applications and powder-based gear-wheels for gearboxes.



## 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	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Net sales	370	423	732	850	1 475	1 593
Operating income	62	68	123	138	209	224
Operating margin, %	16,8	16,1	16,8	16,2	14,2	14,1
Assets			1 093	1 262		1 136
Liabilities			292	188		179
Investments	23	26	45	51	100	106
Depreciations/amortisation	17	18	36	36	73	73

### Sales

Net sales for the period were MSEK 732 (850), down 14% on 2012.

The volume contraction of 3% affected sales negatively. Additionally, reducing prices of alloy metals and exchange rate fluctuations had negative effects on sales.

In Europe, sales volume performance was positive compared to the previous year, partly due to comparative figures for the second quarter 2012 being weak, but also due to a fairly good market for welding products. Additionally, sales volumes in priority segments such as surface coating achieved good growth. Most countries apart from the UK and Spain reported volume growth year on year.

Sales volumes in North America were down somewhat on the corresponding period of the previous year. The second quarter was marginally weaker than a fairly strong first quarter. Sales to the friction segment continued to decrease as a result of production transferring from North America to Asia and Mexico. However, the increase in sales volumes to the welding segment continued due to more business on one major account. Some volume growth was also achieved in South America. The significant sale of iron powder for ferro-niobium manufacture (for micro-alloying of high-strength steel) was largely unchanged due to fairly weak demand performance on customers' Asian export markets. On the other hand, sales on some other markets, such as the welding segment, increased.

Overall, sales in Asia were sluggish early in the year in most countries. Growth in segments including brazing and cutting continued. But in the major welding powder and hot bag segments, sales volumes were low. In the welding segment, demand conditions generally deteriorated. Delays to major infrastructure projects, and high inventory levels with distributors, were reported in India. In Korea, reduced shipbuilding resulted in weaker demand for welding powder. Sales to customers that produce hot bags are seasonal, but the manufacturing periods can vary somewhat from year to year. Sales improved significantly in the second quarter compared to the first. Höganäs does not consider that any notable change to market shares has occurred. The sale of oxygen absorption products also increased gradually through the spring. For these products, the second quarter, exceeded the corresponding quarter of the previous year, which meant that sales for the first half-year were in line with 2012 overall.

### Income

Operating income for the period was MSEK 123 (138) and operating margin was 16.8% (16.2).

Sales volume contraction and a somewhat poorer product mix affected income negatively. Negative effects from lower production volumes at plants were partly countered by cost savings executed. The currency effect on income was limited due to cash flow hedges entered in 2012.

Höganäs judges that metal price fluctuations did not affect operating income notably.

## Group highlights (in the reporting period)

### SECOND QUARTER

#### Revision and extension of H Intressenter's cash offer

On 22 May, H Intressenter raised its offer (see 'first quarter' below) to Höganäs' shareholders by SEK 15 per share to SEK 325 per share. After adjusting for the dividend of SEK 10 per share from Höganäs, with record date of 3 May 2013, H Intressenter was offering SEK 310 for each share. H Intressenter then raised the price of its offer by SEK 15 per share, to SEK 325 per share.

The acceptance period for the offer was extended on 17 July, and on two previous occasions in the second quarter. The completion of the offer is subject to, inter alia, approvals from competition authorities in a number of jurisdictions. H Intressenter has received approvals from competition authorities in all necessary jurisdictions apart from China, where Chinese competition authorities are currently conducting an extended review. As a consequence, H Intressenter has extended the acceptance period for the offer, most recently until 16 August 2013 inclusive. The extended review is now in its final stage and, according to information from the Chinese competition authorities, approval is expected to be granted before expiry of the extended acceptance period. Therefore, H Intressenter does not expect that any further extension of the acceptance period due to the competition filing in China will be required. Provided that H Intressenter around 21 August 2013 announces that the offer is completed, settlement is expected to commence around 26 August 2013.

#### The Board of Directors recommends all Höganäs shareholders accept H Intressenter's revised public offer

After H Intressenter revised its offer, Höganäs' Board of Directors decided to recommend that its shareholders accept the offer. In its appraisal, the Board of Directors referred to H Intressenter having expressed that it values the competence possessed by Höganäs' management and staff, and the work they are doing, and that it intends to keep safeguarding the excellent employee relations within Höganäs. In addition, the Board of Directors notes that H Intressenter supports Höganäs' current strategic plans, and accordingly, does not foresee any significant effects from completion of the offer on employment and operations at those sites where Höganäs conducts operations. Nor does it foresee any significant changes for Höganäs' management and employees, or their employment terms. The Board of Directors considered a number of factors regarded as relevant. These factors include, but are not limited to, Höganäs' current position, expected future progress and potential, and the related opportunities and risks. The Board of Directors has also analysed the offer using methods normally applied for evaluating bids for listed companies, including bid premiums in relation to share price. Höganäs' valuation in relation to comparable listed companies and comparable acquisition transactions, the stock market's expectations of Höganäs' profitability and share price performance and the Board of Directors' evaluation of Höganäs' long-term value based on expected future cash flows. In addition to a range of financial analysis, due to the offer, the Board of Directors also contacted trade and financial stakeholders to ascertain their potential interest in acquiring Höganäs. The Board of Directors concludes that no concrete indications of a competing bid materialising have emerged. No stakeholder has proactively contacted the Board of Directors to explore the prospects of presenting a bid. Höganäs' Board of Directors appointed Handelsbanken Capital Markets as its financial adviser and Mannheimer Swartling as its legal adviser on matters relating to the offer. Handelsbanken Capital Markets has reported a fairness opinion on the offer. Considering the above evaluation, the overall opinion of the Board of Directors is that the offer is fair from a financial perspective, and the Board of Directors unanimously recommends all shareholders of Höganäs to accept the offer.

### FIRST QUARTER

#### Public cash offer to shareholders

On 11 February 2013, Lindéngruppen AB and Foundation Asset Management Sweden AB (FAM) made a cash offer through their jointly held company H Intressenter AB, to transfer all the shares of Höganäs AB (publ) to H Intressenter AB at a price of SEK 320 per share. Simultaneously, H Intressenter acquired Industrivärden's Höganäs shares, corresponding to 12.6% of the shares and 10.1% of the votes. Lindéngruppen undertook to transfer all its Höganäs shares to H Intressenter. Including the shares acquired from Industrivärden, H Intressenter controls 34.4% of the shares and 47.9% of the votes of Höganäs. This offer is fully funded through a combination of equity from Lindéngruppen and FAM and bank funding from Skandinaviska Enskilda Banken AB (publ), and is not conditional on finance. H Intressenter decided to announce its offer before Höganäs' Board of Directors had sufficient opportunity to take a decision on the offer considering the close relations existing between some Board members of Höganäs and Lindéngruppen. The scheduled acceptance period for the offer was from 15 March 2013 to 24 May 2013, both dates inclusive, with the scheduled settlement date of 3 June 2013. In the event of the shareholders of Höganäs AB (publ) accepting H Intressenter's cash offer, the Höganäs share would be de-listed from NASDAQ OMX. For complete information, see the document "Offer to Shareholders of Höganäs AB" published on 14 March 2013 at [www.h-intressenter.se](http://www.h-intressenter.se).



## Other financial information

### FINANCIAL POSITION

The equity/assets ratio was 61.7% at the end of the period, against 64.2% at year-end 2012. Shareholders' equity per share was SEK 105.24, against SEK 104.64 at year-end 2012.

Consolidated financial net debt was MSEK 586 at the end of the period, an increase of only MSEK 15 on year-end, due to the cash dividend executed in the second quarter, and investments in fixed assets were financed by strong cash flow. The net debt equity ratio was 16%, unchanged since year-end 2012.

The net financial income and expense was MSEK -6 (-20). Höganäs' interest expenses decreased on the previous year due to lower indebtedness. In the period, the revaluation effect of short-term credit facilities in foreign currency had a MSEK 3 positive impact on net financial income and expense, compared to an MSEK 5 negative effect in the corresponding period of 2012.

Cash and cash equivalents were MSEK 151 against MSEK 148 at year-end 2012. In addition, Höganäs had un-utilised credit facilities of MSEK 1,878, of which MSEK 1,752 comprises a five-year credit facility that runs from December 2012 onwards. In the event of a change of control, the existing credit agreement may be re-negotiated. See Note 23 of Höganäs' Annual Report 2012 for more information.

### CASH FLOW

Cash flow from operating activities was MSEK 503 (530). Cash flow remained satisfactory. Due to very low sales in December 2012 and low inventory levels at the beginning of the year, there was some build-up of working capital in the period. Comparisons with the previous year are also negatively affected by a MSEK 40 supplementary tax payment made in 2013, while a refund of MSEK 30 was received in 2012.

Financing activities affected cash flow by MSEK -337 (-347). The utilisation of committed credit facilities decreased by MSEK 86 in the period, while the utilisation of other credit facilities increased by MSEK 97. A MSEK 348 cash dividend was executed.

### INVESTMENTS, DEPRECIATION AND AMORTISATION

Consolidated net investments in fixed assets were MSEK 162 (176). Depreciation and amortisation of fixed assets was MSEK 168 (156).

### HUMAN RESOURCES

There were 1,623 employees at the end of the period, against 1,656 at year-end 2012.

### SHARE CAPITAL

On 30 June 2013, 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 2012 (see the risk management section and Note 31 for a more detailed review of the group's and parent company's risk exposure and risk management).

### ACCOUNTING PRINCIPLES

This condensed interim report for the group has been prepared in accordance with IAS 34 *Interim Financial Reporting* and applicable regulations of the Swedish Annual Accounts Act. The Interim Report for the parent company has been prepared in accordance with the Swedish 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, apart from what is stated below regarding amended accounting principles.

#### *Amended accounting principles*

As a result of amendments to IAS 1 *Presentation of Financial Statements*, items in other comprehensive income have been divided into two categories; items that have been reclassified or can be reclassified to profit or loss for the year, and items that cannot be reclassified. Items that can be reclassified are translation differences and gain/losses on cash flow hedges, for example. In Höganäs' case, items that cannot be reclassified consist only of revaluation of defined benefit pension plans.

The group's defined benefit pension plans have been restated to comply with the amendment of IAS 19 *Employee Benefits*. This amendment primarily means that 'the corridor method' for unrealised actuarial gains/losses has been discontinued.

Accordingly, the whole net pension liability is recognised in the Statement of Financial Position, and the change in actuarial assumptions for the year is recognised against other comprehensive income. The new principle is applied from 1 January 2013. Comparative figures for 2012 have been restated, as in the table 'effect of amended accounting principle' on page 14.

Through the introduction of the new standard IFRS 13 *Fair Value Measurement*, and amendments to IFRS 7 *Financial Instruments: Disclosures*, and IAS 34 *Interim Financial Reporting*, the IASB has extended the requirements for disclosure of financial instruments in interim financial reports. The new requirements relate to disclosures of the fair value of financial instruments and offsetting financial assets and financial liabilities. IFRS 13 is being applied prospectively from 1 January 2013, and is a new consistent standard of fair value measurement. The standard also includes changed and extended requirements on reporting at fair value. The standard did not have any significant impact on Höganäs' measurement of financial instruments.

## **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 understanding the progress of the company's financial position and results of operations. The parent company's results of operations and financial position are presented in the final section of this Report.

## **FINANCIAL INFORMATION**

Third-quarter Interim Report 2013, 23 October

Year-end Report for 2013, 5 February 2014

First-quarter Interim Report 2014, 23 April

The Annual General Meeting will be held on 28 April 2014

The Annual Report is scheduled for publication in week 15 2014

## **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 18 July 2013.

The press conference will be streamed at: [www.hoganas.com](http://www.hoganas.com) / Investor Relations / Conference Call. It is open to journalists, analysts and investors. Participants are welcome to call on +46 (0)8 519 990 30, +44 (0)203 364 5373 or +1 8777 889 023.

## **MORE INFORMATION**

For more information, please contact:

Alrik Danielson, CEO and President, +46 (0)42 33 80 00

Sven Lindskog, Chief Financial Officer, +46 (0)42 33 80 00

This Half-year Interim Report gives a true and fair view of the parent company's and the group's operations, financial position and results of operations and reviews the significant risks and uncertainty factors facing the parent company and group companies.

Höganäs, Sweden, 18 July 2013



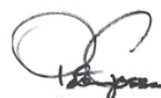
*Anders G Carlberg*  
Chairman of the Board



*Karl-Henry Boo*  
Employee representative



*Alrik Danielson*  
Chief Executive Officer



*Peter Gossas*  
Board member



*Urban Jansson*  
Board member



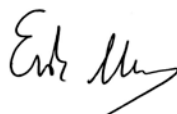
*Jenny Lindén Urnes*  
Board member



*Tony Petersson*  
Employee representative



*Björn Rosengren*  
Board member



*Erik Urnes*  
Board member

---

## **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 subject to review by the company's auditors. The information was submitted for publication at 9:00 a.m. on 18 July 2013.

---

## Consolidated Income Statement

MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Net sales	1 652	1 808	3 229	3 621	6 320	6 712
Cost of goods sold	-1 183	-1 333	-2 315	-2 671	-4 705	-5 061
<b>Gross profit</b>	<b>469</b>	<b>475</b>	<b>914</b>	<b>950</b>	<b>1 615</b>	<b>1 651</b>
Selling expenses	-75	-69	-142	-136	-275	-269
Administrative expenses	-82	-83	-170	-171	-322	-323
Research and development costs	-55	-44	-103	-83	-188	-168
Other operating income	6	6	16	10	26	20
Other operating expenses	-1	1	-3	-1	-6	-4
<b>Operating income</b>	<b>262</b>	<b>286</b>	<b>512</b>	<b>569</b>	<b>850</b>	<b>907</b>
Financial income	4	2	7	5	12	10
Financial expenses	-6	-14	-13	-25	-33	-45
<b>Income before tax</b>	<b>260</b>	<b>274</b>	<b>506</b>	<b>549</b>	<b>829</b>	<b>872</b>
Tax	-67	-71	-127	-142	-156	-171
<b>Net income</b>	<b>193</b>	<b>203</b>	<b>379</b>	<b>407</b>	<b>673</b>	<b>701</b>
<b>Net income attributable to:</b>						
Parent company shareholders	193	203	379	407	673	701
Non-controlling interests	0	0	0	0	0	0
<b>Total earnings for the period</b>	<b>193</b>	<b>203</b>	<b>379</b>	<b>407</b>	<b>673</b>	<b>701</b>
<b>Earnings per share for the period:</b>						
Before and after dilution, SEK	5,56	5,84	10,90	11,70	19,33	20,13
<b>Average number of shares outstanding:</b>						
Before and after dilution ('000)	34 805	34 805	34 805	34 805	34 805	34 805
Number of treasury shares at end of period ('000)	294	294	294	294	294	294
Average number of treasury shares ('000)	294	294	294	294	294	294

## Consolidated Statement of Comprehensive Income

MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
<b>Net income</b>	<b>193</b>	<b>203</b>	<b>379</b>	<b>407</b>	<b>673</b>	<b>701</b>
<b>Other comprehensive income</b>						
<i>Items that have been transferred or can be transferred to net income:</i>						
Translation difference	103	127	70	-41	-181	-292
Hedging of currency risk in foreign operations	-61	-92	-57	10	75	142
Cash flow hedges	-72	-28	-55	40	13	108
Tax attributable to items above	60	13	32	-23	1	-54
	<b>30</b>	<b>20</b>	<b>-10</b>	<b>-14</b>	<b>-92</b>	<b>-96</b>
<i>Items that cannot be transferred to net income:</i>						
Revaluation of defined benefit pension plans	0	0	0	0	13	13
Tax attributable to item above	0	0	0	0	-9	-9
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>4</b>
<b>Other comprehensive income for the period</b>	<b>30</b>	<b>20</b>	<b>-10</b>	<b>-14</b>	<b>-88</b>	<b>-92</b>
<b>Comprehensive income for the period</b>	<b>223</b>	<b>223</b>	<b>369</b>	<b>393</b>	<b>585</b>	<b>609</b>
<b>Earnings per share for the period:</b>						
Before and after dilution, SEK	6,41	6,41	10,60	11,29	16,81	17,50
<b>Comprehensive income for the period attributable to:</b>						
Parent company shareholders	223	223	369	393	585	609
Non-controlling interests	0	0	0	0	0	0

## Consolidated Statement of Financial Position—Summary

MSEK	30-Jun 2013	30-Jun 2012	31-Dec 2012
<b>Assets</b>			
Intangible fixed assets	303	293	326
Tangible fixed assets	2 569	2 558	2 546
Long-term receivables	21	29	25
Deferred tax assets	53	24	32
<b>Total fixed assets</b>	<b>2 946</b>	<b>2 904</b>	<b>2 929</b>
Inventories	1 587	1 729	1 564
Current receivables	1 252	1 384	1 030
Liquid funds	151	87	148
<b>Total current assets</b>	<b>2 990</b>	<b>3 200</b>	<b>2 742</b>
<b>Total assets</b>	<b>5 936</b>	<b>6 104</b>	<b>5 671</b>
<b>Shareholder's equity and liabilities</b>			
Shareholders' equity	<b>3 663</b>	<b>3 426</b>	<b>3 642</b>
Long-term interest-bearing liabilities	535	808	474
Other long-term liabilities	46	38	48
Provisions	121	147	123
Deferred tax liabilities	385	347	378
<b>Total long-term liabilities</b>	<b>1 087</b>	<b>1 340</b>	<b>1 023</b>
Current interest-bearing liabilities	110	126	151
Other current liabilities	1 076	1 212	855
<b>Total current liabilities</b>	<b>1 186</b>	<b>1 338</b>	<b>1 006</b>
<b>Total liabilities</b>	<b>2 273</b>	<b>2 678</b>	<b>2 029</b>
<b>Total shareholders' equity and liabilities</b>	<b>5 936</b>	<b>6 104</b>	<b>5 671</b>
Pledged assets	49	56	51
Contingent liabilities	73	73	75

## Financial instruments measured at fair value in the Statement of Financial Position

MSEK	Valuation hierarchy			30 June 2013
	Tier 1	Tier 2	Tier 3	Total
<b>Other current receivables</b>				
Raw materials derivatives	5	-	-	5
Currency derivatives	-	34	-	34
	<b>5</b>	<b>34</b>	<b>-</b>	<b>39</b>
<b>Other current liabilities</b>				
Raw materials derivatives	0	-	-	0
Electricity derivatives	21	-	-	21
Interest rate derivatives	-	1	-	1
Currency derivatives	-	35	-	35
	<b>21</b>	<b>36</b>	<b>-</b>	<b>57</b>

The group has ISDA agreements with all of its material counterparties for financial derivative instruments. All derivative receivables and derivative liabilities in the group can be fully offset against other obligations with the same counterparty if the conditions for offset occur. These financial instruments have been recognised gross in the Statement of Financial Position. For a description of the measurement techniques and input data for measuring financial instruments at fair value, See Note 31 in Höganäs' Annual Report 2012. For other financial assets and liabilities in the group, carrying amounts are a reasonable approximation of fair value. For a more detailed specification of these items, see the above Note.

## Consolidated Statement of Changes in Shareholders' Equity—Summary

MSEK	30-Jun 2013	30-Jun 2012	31-Dec 2012
Opening shareholders' equity	3 642	3 514	3 514
Adjusted for retroactive application	-	-133	-133
Adjusted opening shareholders' equity	3 642	3 381	3 381
Comprehensive income for the period	369	393	609
Dividends	-348	-348	-348
<b>Closing shareholders' equity</b>	<b>3 663</b>	<b>3 426</b>	<b>3 642</b>

## Effect of amended accounting principle for the second quarter of 2012, IAS 19

MSEK	Adjusted opening balance 1 Jan 2012	Adjusted income	Adjusted closing balance 30 June 2012
<b>Impact on Statement of Financial Position</b>			
Long-term receivables	-59	0	-59
Provisions for pensions	105	-2	103
Other provisions	20	0	20
Deferred tax liabilities	-51	0	-51
Shareholders' equity	-133	2	-131
<b>Impact on Income Statement</b>			
Operating income		2	
Deferred tax		0	
<b>Net income</b>		<b>2</b>	
<b>Impact on Comprehensive Income</b>			
Net income		2	
Other comprehensive income		0	
Tax attributable to other comprehensive income		0	
<b>Comprehensive income for the period</b>		<b>2</b>	

## Effect of amended accounting principle for the full year 2012, IAS 19

MSEK	Adjusted opening balance 1 Jan 2012	Adjusted income full year 2012	Adjusted closing balance 31 Dec 2012
<b>Impact on Statement of Financial Position</b>			
Long-term receivables	-59	-5	-64
Provisions for pensions	105	-19	86
Other provisions	20	-5	15
Deferred tax liabilities	-51	11	-40
Shareholders' equity	-133	8	-125
<b>Impact on Income Statement</b>			
Operating income		4	
Deferred tax		-1	
<b>Net income</b>		<b>3</b>	
<b>Impact on Comprehensive Income</b>			
Net income		3	
Other comprehensive income		14	
Tax attributable to other comprehensive income		-9	
<b>Comprehensive income for the period</b>		<b>8</b>	



## Consolidated Statement of Cash Flows—Summary

MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Cash flow from operating activities before changes in working capital	307	303	558	634	971	1 047
Changes in working capital	14	-97	-55	-104	124	75
<b>Cash flow from operating activities</b>	<b>321</b>	<b>206</b>	<b>503</b>	<b>530</b>	<b>1 095</b>	<b>1 122</b>
Cash flow from investing activities	-76	-81	-162	-176	-423	-437
Cash flow from financing activities	-239	-137	-337	-347	-605	-615
<b>Cash flow for the period</b>	<b>6</b>	<b>-12</b>	<b>4</b>	<b>7</b>	<b>67</b>	<b>70</b>
Liquid funds, opening balance	145	100	148	82	87	82
Exchange rate differences in liquid funds	0	-1	-1	-2	-3	-4
<b>Liquid funds, closing balance</b>	<b>151</b>	<b>87</b>	<b>151</b>	<b>87</b>	<b>151</b>	<b>148</b>

## Key indicators

MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Net sales	1 652	1 808	3 229	3 621	6 320	6 712
Operating income	262	286	512	569	850	907
Operating margin, %	15,9	15,8	15,9	15,7	13,4	13,5
Capital employed	-	-	4 400	4 472	4 436	4 361
Return on capital employed, % (latest 12 months)	-	-	-	-	19,2	20,5
Equity	-	-	3 663	3 426	3 545	3 642
Return on equity, % (latest 12 months)	-	-	-	-	19,0	19,6
Financial net debt	-	-	586	959	-	571
Debt/equity ratio, multiple	-	-	0,16	0,28	-	0,16
Interest coverage ratio, multiple	-	-	85,3	28,5	-	25,9
<b>Key figures per share <sup>1</sup></b>						
Earnings per share, SEK	5,56	5,84	10,90	11,70	19,33	20,13
Shareholders' equity per share, SEK	-	-	105,24	98,43	101,84	104,64
Operating cashflow per share, SEK	9,22	5,92	14,45	15,23	31,46	32,24

<sup>1</sup> Based on 34,805,132 shares (34,805,132), which corresponds to the number of shares outstanding as of 30 June 2013 (30 June 2012), after dilution.

## Quarterly Income Statement—Summary

MSEK	2013		2012				2011 <sup>1</sup>			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales	1 652	1 577	1 489	1 602	1 808	1 813	1 632	1 810	1 869	1 770
Cost of goods sold	-1 183	-1 132	-1 166	-1 224	-1 333	-1 338	-1 240	-1 373	-1 385	-1 305
<b>Gross profit</b>	<b>469</b>	<b>445</b>	<b>323</b>	<b>378</b>	<b>475</b>	<b>475</b>	<b>392</b>	<b>437</b>	<b>484</b>	<b>465</b>
Selling and administrative expense	-157	-155	-159	-126	-152	-155	-147	-129	-146	-141
Research and development costs	-55	-48	-43	-42	-44	-39	-35	-38	-44	-40
Other operating income and expenses	5	8	11	-4	7	2	2	5	8	-2
<b>Operating income</b>	<b>262</b>	<b>250</b>	<b>132</b>	<b>206</b>	<b>286</b>	<b>283</b>	<b>212</b>	<b>275</b>	<b>302</b>	<b>282</b>
Net financial income and expenses	-2	-4	-10	-5	-12	-8	-13	-24	-8	-2
<b>Income before tax</b>	<b>260</b>	<b>246</b>	<b>122</b>	<b>201</b>	<b>274</b>	<b>275</b>	<b>199</b>	<b>251</b>	<b>294</b>	<b>280</b>
<b>Net income</b>	<b>193</b>	<b>186</b>	<b>145</b>	<b>149</b>	<b>203</b>	<b>204</b>	<b>152</b>	<b>185</b>	<b>217</b>	<b>208</b>

<sup>1</sup> Year-2011 figures not restated for the effect of amended accounting principle, IAS 19.

## Parent Company Income Statement—Summary

MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
Net sales	43	43	84	84	169	169
Selling expenses	-10	-12	-18	-26	-43	-51
Administrative expenses	-42	-43	-85	-90	-162	-167
Research and development costs	-54	-49	-100	-95	-191	-186
Other operating income and expenses	-1	1	0	1	5	6
<b>Operating income</b>	<b>-64</b>	<b>-60</b>	<b>-119</b>	<b>-126</b>	<b>-222</b>	<b>-229</b>
Earnings on participations in Group companies	83	60	114	109	128	123
Financial income and expenses, net	-59	-70	-7	31	116	154
<b>Income after financial items</b>	<b>-40</b>	<b>-70</b>	<b>-12</b>	<b>14</b>	<b>22</b>	<b>48</b>
Appropriations	-3	-	-6	-	404	410
<b>Income before tax</b>	<b>-43</b>	<b>-70</b>	<b>-18</b>	<b>14</b>	<b>426</b>	<b>458</b>
Tax	21	28	21	19	-91	-93
<b>Net income</b>	<b>-22</b>	<b>-42</b>	<b>3</b>	<b>33</b>	<b>335</b>	<b>365</b>
Depreciation/amortisation for the period	9	9	18	17	36	35

## Parent Company Statement of Comprehensive Income

MSEK	Second quarter		Accumulated		Last	Full year
	2013	2012	2013	2012	12 months	2012
<b>Net income</b>	<b>-22</b>	<b>-42</b>	<b>3</b>	<b>33</b>	<b>335</b>	<b>365</b>
<b>Other comprehensive income</b>						
Cash flow hedges	1	1	2	1	4	3
Tax attributable to other comprehensive income	0	0	0	0	-1	-1
<b>Other comprehensive income for the period</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>2</b>
<b>Comprehensive income for the period</b>	<b>-21</b>	<b>-41</b>	<b>5</b>	<b>34</b>	<b>338</b>	<b>367</b>

## Parent Company Balance Sheet—Summary

MSEK	30-Jun 2013	30-Jun 2012	31-Dec 2012
<b>Assets</b>			
Intangible fixed assets	55	72	65
Tangible fixed assets	127	120	129
Financial fixed assets	3 925	3 830	3 920
<b>Total fixed assets</b>	<b>4 107</b>	<b>4 022</b>	<b>4 114</b>
Current receivables	174	205	133
Liquid funds	2	0	3
<b>Total current assets</b>	<b>176</b>	<b>205</b>	<b>136</b>
<b>Total assets</b>	<b>4 283</b>	<b>4 227</b>	<b>4 250</b>
<b>Shareholder's equity and liabilities</b>			
Shareholders' equity	1 240	1 250	1 583
Untaxed reserves	149	61	149
Provisions	2	5	12
Long-term interest-bearing liabilities	829	1 088	755
Other long-term liabilities	862	773	859
<b>Total long-term liabilities</b>	<b>1 691</b>	<b>1 861</b>	<b>1 614</b>
Short-term interest-bearing liabilities	609	426	515
Other current liabilities	592	624	377
<b>Total current liabilities</b>	<b>1 201</b>	<b>1 050</b>	<b>892</b>
<b>Total shareholders' equity and liabilities</b>	<b>4 283</b>	<b>4 227</b>	<b>4 250</b>
Pledged assets	10	10	10
Contingent liabilities	318	315	303

## Parent Company Statement of Changes in Shareholders' Equity—Summary

MSEK	30-Jun 2013	30-Jun 2012	31-Dec 2012
Opening shareholders' equity	1 583	1 564	1 564
Comprehensive income	5	34	367
Dividends	-348	-348	-348
<b>Closing shareholders' equity</b>	<b>1 240</b>	<b>1 250</b>	<b>1 583</b>