Höganäs

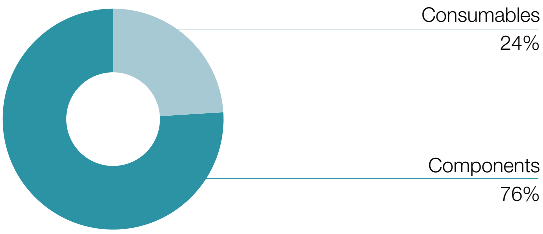
ANNUAL REPORT 2012

# HÖGANÄS IN TWO MINUTES

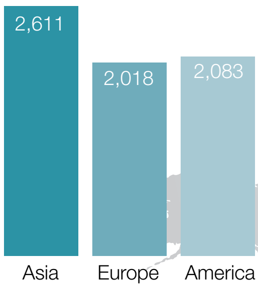
Höganäs is the world's leading producer of iron and metal powders. We see infinite possibilities to improve the existing application segments of metal powder and develop new ones. With our in-depth know-how of our customers' applications, we are developing tomorrow's car components, surface coating and brazing products, as well as systems for sustainable energy production and electric motors. This is why our vision is "We push the limits of metal powder."

» Founded in 1797
» 634 patents granted in different countries
» 1,700 employees in 15 countries
» Listed on NASDAQ OMX, Stockholm, Mid Cap, since 1994
» Over 1,500 products, mostly customer specific, produced at 12 sites worldwide

**CONSOLIDATED TURNOVER BY BUSINESS AREA**




**SALES BY REGION, MSEK**




**CUSTOMERS**

Höganäs operates in 75 countries and has a base of some 2,650 customers worldwide.

In the Components business area, the main customers are component manufacturers in the car industry, as well as the garden and tool industries.

In the Consumables business area, customers are mainly OEMs (Original Equipment Manufacturers), active in many different industries and sectors like the food industry, the automotive industry, chemical and metallurgical process industries and the welding industry.

**HÖGANÄS' OFFERING**

Höganäs is a world leader in metal powder, a position built on five success factors:

» High quality
» Large volumes
» Technology development
» Technical customer support
» Market presence

Applications of iron and metal powders include components for the automotive industry, surface coating for vehicle valves and hydraulic cylinders, for example, brazing in the manufacture of heat exchangers and catalytic converters, electromagnetic applications in the development of electric motors and inductors, filters for exhaust and water treatment and injection-moulded components for usage in the automotive industry and medical devices, to components for electric hand tools and mobile phones.

The common feature is that Höganäs utilises the unique qualities of iron and metal powders to achieve cost benefits, superior performance and a reduced environmental impact.


**Metal powder in gearboxes reduces fuel consumption**
Höganäs' research has proved that gearboxes with gears made of metal powder can reduce fuel consumption and total manufacturing costs. This means Höganäs is well on the way to convincing the car industry how powder technology can play a key role in the gearboxes of the future.

# 2012 IN BRIEF

- Consolidated net sales were MSEK 6,712 (7,081) in 2012, down 5% year on year, primarily due to a demand slowdown, mainly in Europe, and de-stocking at the customer level.
- Operating income was MSEK 903 (1,071) and income after tax was MSEK 698 (762).
- Earnings per share before and after dilution were SEK 20.04 (21.90).
- Cash flow from operating activities was the highest ever, at MSEK 1,122 (803).
- The net debt/equity ratio decreased to 13%, compared to 25% at the beginning of the financial year.

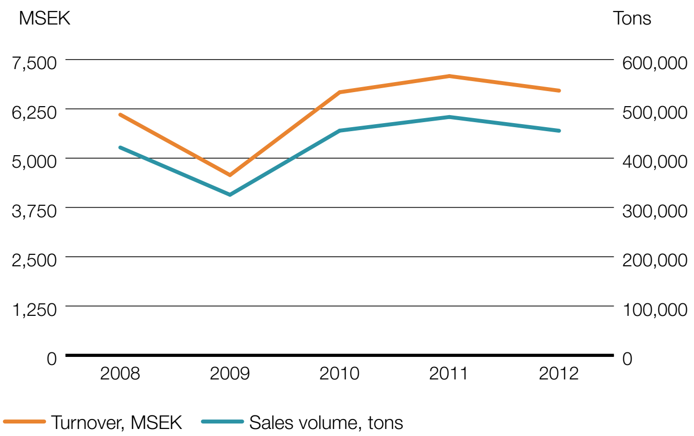
## BUSINESS HIGHLIGHTS IN 2012

- Höganäs made significant advances in materials for metal injection moulded components, MIM. This enables larger components to be injection moulded, simultaneous with a significant cost reduction compared to traditional, finer MIM powders.
- Höganäs started sales of inductors used in solar and wind power, and to utilise the energy from industrial motors more effectively.
- Effective 1 November, Höganäs acquired 100% of Fcubic AB (corporate name changed to Digital Metal AB), a company primarily consisting of a number of patents. This acquisition means Höganäs taking its first step towards shaping the future market for additive manufacturing (3D printing). Current estimated market potential is USD 1 billion, primarily within consumer design, medicine, dental care, aerospace and manufacturing.
- In autumn 2012, Höganäs started collaborating with TRW Engine Components, an important player in engine valves, expected to generate a 5-10% increase in Höganäs' sales volumes of surface coating powder.
- Adapting production capacity and organisational resources to declining demand is complete. Work on identifying further savings in 2013 has commenced.

## GROUP KEY RATIOS

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Net sales, MSEK | 6,671 | 7,081 | 6,712 |
| Operating margin, % | 16.7 | 15.1 | 13.5 |
| Income before tax, MSEK | 1,084 | 1,024 | 868 |
| Net income, MSEK | 804 | 762 | 698 |
| Equity/assets ratio, % | 57.2 | 59.2 | 65.7 |
| Return on capital employed, % | 27.6 | 24.9 | 20.3 |
| Earnings per share, SEK | 23.11 | 21.90 | 20.04 |
| Dividend, SEK | 10.00 | 10.00 | 10.00 |
| Average number of employees | 1,619 | 1,696 | 1,705 |

## TURNOVER AND SALES VOLUMES

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INTERIM REPORT JANUARY-SEPTEMBER ... 23 OCTOBER
YEAR-END REPORT 2013 ... 5 FEBRUARY

# CEO ALRIK DANIELSON

## Important advances on a difficult market

**Three concepts are crucial for creating a successful Höganäs: profitability, growth and innovation. Just like every other company in 2012, we were affected by the global economic downturn in the second half-year. This resulted in somewhat lower sales, of SEK 6.7 billion, down 5% on 2011. We were also affected in profit terms, but still succeeded in achieving an operating margin of 14.1% excluding restructuring expenses in the fourth quarter, compared to our long-term target of 15%.**

In the year, we continued our initiatives to develop new, innovative products. In spring 2012, Höganäs launched its offering of new inductors for more effective electricity generation. We also made major advances in Metal Injection Moulding, metal powder for cost-efficient injection moulded components in complex three-dimensional structures for a variety of applications. In the additive manufacturing (3D printing) segment, we acquired Fcubic AB. We also made major advances in our business, but on an increasingly difficult market.

### CYCLICAL SLOWDOWN

2012 started better for Höganäs than we had expected. In the first quarter, we achieved good sales performance and market acceptance of new powder products in surface coating and component manufacture was positive. Then, in the spring, we saw a clear demand slowdown—our customers, and their customers, were affected by a weak business cycle. Our sales and order levels deteriorated gradually quarter by quarter. We adjusted the production rates in our plants accordingly.

The savings actions we initiated in autumn 2011 continued, but were not enough. So in autumn 2012, we started a major rationalisation programme to adapt our capacity to market demand and cut our costs. Overall, this means we will save some MSEK 60 in 2013, so we are better equipped for an uncertain future. Work on identifying further cost savings continues.

The strong Swedish krona only affected our profits to a limited extent in the year because of currency hedging, but present a significant challenge going forward in our efforts to reach our financial targets. Essentially, metal price surcharges compensated for raw materials price increases. We expect metal prices and currencies to remain volatile in 2013.

### COMPONENTS: AFFECTED BY REDUCED CAR PRODUCTION

Our Components business area consists of powder manufacture and sale to component manufacturers. Its customers are mainly in the powder metallurgy industry, who often produce large batches. Decreasing car production, especially in Europe, combined with generally lower industrial production, negatively affected the business area's progress. Demand from subcontractors for garden equipment, tools and household appliances also levelled off. However, the launch of the latest generation of metal powder solutions for component manufacturers was successful in many markets. Overall, Components' turnover was down somewhat on 2011.

## CONSUMABLES: A STRONG YEAR FOR BRAZING

The Consumables business area includes iron powder and high-alloy powder used for surface coating, welding and brazing, but also a raft of other segments in the chemical and metallurgical process industries. Sales are mainly to OEMs in these segments, as well as to subcontractors. Business area turnover was down somewhat year on year. Demand from manufacturers, mainly in Europe, deteriorated in the year. Brazing and surface coating were especially strong performers as individual product groups, and posted sales records compared to previous years.

## CHANGEABLE MARKET PROGRESS

Höganäs' performance on its geographical markets was mixed. Sales in Europe decreased in the year due to the economic slowdown. The European car industry is struggling with overcapacity—the estimated capacity surplus in 2012 is 2-3 million cars, or 15-20%. Sales in Asia progressed positively, especially in the first half-year, with sales recovering after the Japanese tsunami and flooding in Thailand. Sales in most Asian countries were fairly good in the year, while progress in India slowed due to factors including the country's economic problems. Our underlying sales in North America are positive, while the South American market started poorly, but improved in the year, through means including growth-promoting stimulus measures for the Brazilian economy.

## NEW APPLICATIONS DRIVING OUR DEVELOPMENT

Höganäs' research and development is based on market needs. We are driven by developing new applications for our customers, and basically all products are developed together with them. For example, our experts in electromagnetic applications have developed inductors for segments such as industrial motors, heat pumps and solar and wind power.

The launch of Inductit (Höganäs' own inductors) in the spring gained a very positive market reception. The first orders were shipped in the second quarter and deliveries continued for the rest of the year.

The development of injection-moulded components based on our metal powder, termed Metal Injection Moulding, MIM, is another good example of new applications. The combination of unique production technology and the right binding agents enable the usage of coarser powders for larger MIM components, for applications such as medical and dental instruments, tools and household products. This coarser powder can be produced at a lower cost, enabling the production of larger components for a relatively low cost. This will mean lower costs for our customers compared to traditional, finer MIM powders.

## STRATEGIC ACQUISITIONS

Höganäs' acquisition of development enterprise Fcubic AB and the formation of the Digital Metal® segment is a good example of how we are working to realize our vision: we push the limits of metal powder. This acquisition is an important step towards strengthening our competence in additive manufacturing, or 3D printing. We expect Digital Metal's technology to be an important part of component and system manufacture of the future, because it creates significant value for customers for minimum development lead-times, superior performance and customer-specific components on a large scale.

The acquisition of Fcubic means Höganäs taking its first step towards shaping the future market for additive manufacturing. Currently estimated market potential is USD 1 billion, primarily in consumer design, medicine, dental care, aerospace and manufacturing.

## 2013—SAVINGS AND INVESTMENTS

Economic conditions in 2013 are highly uncertain, which is also affecting Höganäs' markets. In 2012, we witnessed how the debt and liquidity crisis affected the global manufacturing market. We are convinced that this trend will continue in 2013, although the extent remains unclear.

Against the background of uncertain market conditions, the rationalisation measures we decided in autumn 2012 become more important. In 2013, we will be focusing on adapting our organisation and capacity to market demand and ensuring the necessary cost savings.

But continued initiatives in research and development will also feature in 2013. Höganäs has an expressed strategy of working in the value chain. We have a good understanding of our customers' needs and processes. By working alongside them, we can create successful innovation projects. However, our development work must also be balanced against our financial targets. Accordingly, achieving our profitability target of a 15% operating margin and maintaining a strong cash flow will also remain central issues for us in 2013.

To be able to create long-term value for our customers and shareholders, we need to keep growing, develop new, innovative products and maintain good profitability. With its leadership on the market, I think Höganäs has good prospects of succeeding in this respect.

Höganäs, Sweden, February 2013.

Alrik Danielson
CEO and President

> To create long-term value for our customers and shareholders, we need to keep growing, develop new, innovative products and achieve good profitability.

# BUSINESS INTELLIGENCE

## The hunt for cost-efficient solutions

**A series of global exogenous factors affect Höganäs' business and future prospects of achieving growth and profitability. Easily the most important factor affecting the Group and its customers is the hunt for cost-efficient solutions with positive environmental effects. In a world of finite resources, cost-efficiency permeates all activities from material choices, production processes and flows, to the consumption of energy and resources. Increased cost-efficiency is a major challenge, while simultaneously urging innovation.**

Striving for cost-efficiency creates opportunities to identify new solutions to old problems, which might be better ways to manage our finite resources, or limit negative environmental and climate effects. Consumption growth is keeping pace with the global population, simultaneous with shortages of critical resources, such as raw materials and water. One key question is how we will be able to supply more people with less, especially on new growth markets, where progress is generally faster, starting from existing technology.

### ESTABLISHED KNOW-HOW PUSHING TECHNOLOGY FORWARD

Höganäs takes an overall perspective to its customers' business to understand their current and future needs for new products and solutions better. With over 200 years' experience, Höganäs has established an undisputed knowledge of metals, materials, production processes and flows. Translated into proactive and customer-specific solutions, this know-how can push technology forward and create a cost-efficient production process.

Technology advances do not happen overnight, but continuous research and development guarantees that Höganäs can continue to challenge the sector and set new targets, not only as a partner to customers, but also as a technology leader. This is true of metal powder solutions and support activities such as training, technical support, logistics solutions and product development. Apart from cost-efficiency, Höganäs focuses on superior materials performance and energy efficiency. This may be about the prospects of generating and transmitting electrical energy from solar power and wind power effectively, and creating a more sustainable and environmentally efficient production process.

### GLOBAL DEVELOPMENT FOR LOCAL DEMAND

Höganäs is creating room to act now that the global economy is uncertain and hard to read. Continuous development is bringing greater adaptability to new demand and new business opportunities in different markets. To achieve more sustainable and environmentally efficient production, a global presence on growth markets is also important for research and development. Höganäs has started Power of Powder (PoP) centres worldwide. Höganäs also runs global development work in six priority application segments in close collaboration with customers and leading academic institutions.

**Höganäs' development engineers are researching future applications for metal powder. Here we see Anna Larsson and Per Croona working on materials for metal injection moulded components.**

# BUSINESS STRATEGY

## Höganäs works end to end in the value chain

Metal powder is part of our everyday lives. It is an exciting, multifaceted material that offers a raft of application segments and business opportunities, with the only limit being our imagination. Höganäs is the world leader in metal powder. The Company is driven by the vision of pushing the limits of metal powder jointly with its customers.

### VISION – WE PUSH THE LIMITS OF METAL POWDER

Höganäs is developing the usage of metal powder in different ways: by finding new application segments for current metal powders, enhancing existing products and producing new metal powder mixes with specific characteristics and application segments.

### MISSION – WE CREATE NEW BUSINESS OPPORTUNITIES AND PROFITABLE GROWTH

Höganäs' focus on profitable growth not only benefits the Company and its shareholders, but also customers and suppliers. With its unique knowledge of metal powder and its various characteristics and application segments, Höganäs is able to influence customers' processes and create new business. This is how Höganäs creates value-added for its customers in relation to their customers.

### STRATEGY – WE WORK THE VALUE CHAIN

To be able to develop and introduce new applications for metal powder, Höganäs works end to end in the value chain. From suppliers of metal raw materials or scrap to customers, or from component manufacturers or OEMs, but also to end-customers and end-users. Höganäs possesses know-how and competence in all links of the value chain to contribute to various processes and create value-added. This extends over metallurgy, technology, design and process development. Close partnerships with customers create long-term and reassuring relationships with Höganäs as a partner.

### HÖGANÄS' POSITION ON EACH MARKET

| MARKET | MARKET POSITION |
|---|---|
| Europe | 1 |
| North America | 2 |
| South America | 1 |
| Asia | 1 |

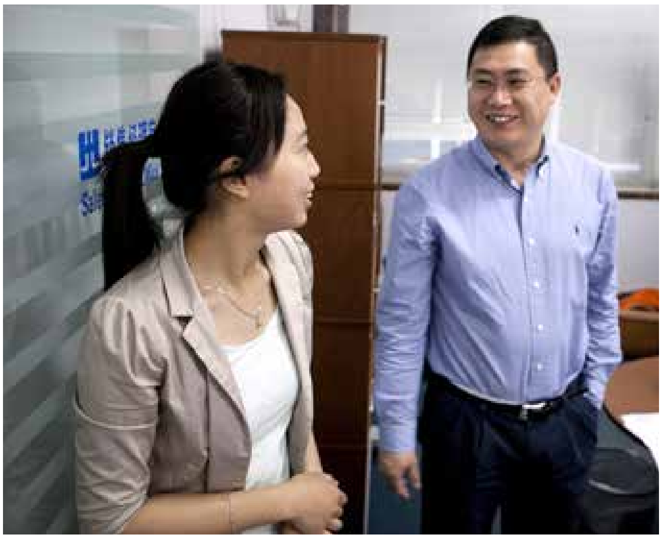
### COMPETITIVE ADVANTAGES

Metal powder offers a range of advantages over competing technologies:

» The possibility of optimising design for minimal cost.
» Reduced material wastage.
» Advantageous from an energy perspective through more environmentally efficient production and later-stage production having less environmental impact.
» Lower processing costs.

### THE VALUE HÖGANÄS CREATES

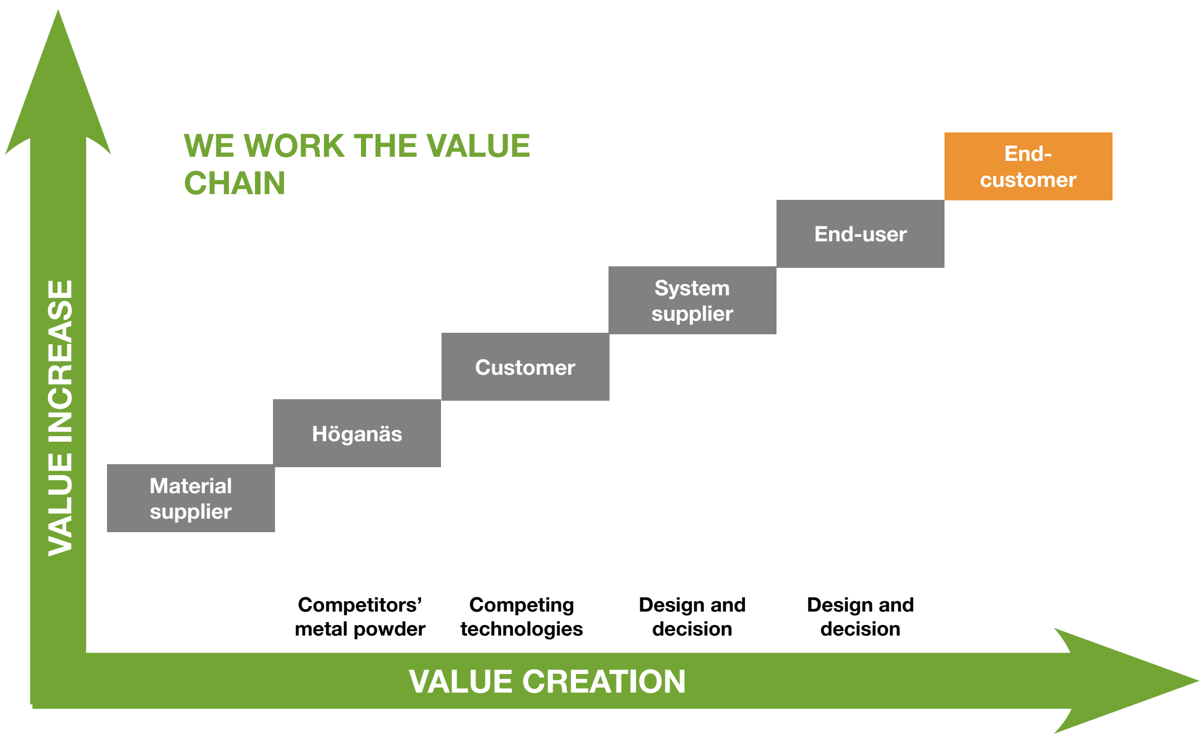
Höganäs products often bring customers high-value-added, not only in the delivery of individual powder products, but also in all supporting activities like training, technical support, logistics solutions, technical reporting and product development. Höganäs brings an overall perspective to its customers' business, to understand their current and future needs for new products and solutions better.



# HÖGANÄS' BUSINESS MODEL

## FINANCIAL TARGETS AND ACHIEVEMENT 2012

| TARGET | 2012 | COMMENT |
|---|---|---|
| **Volume growth**<br>Volume growth averaging 6-8% over a business cycle: | **-6%**<br>-3% excluding one-off deliveries to Hoeganaes Corporation 2011 | After two highly successful years in 2010 and 2011 with high growth, Höganäs was negatively affected by an accentuating recession in Europe in 2012, and significant destocking at the customer level. |
| **Operating margin**<br>Operating margin of over 15%: | **13.5%**<br>14.1% excluding non-recurring expenses for staff reductions in the fourth quarter | Höganäs beat its 15% operating margin target in 2010 and 2011. Höganäs reported a 15.7% margin in the first half-year 2012, but the aforementioned destocking and a sharp focus on cash flow caused under-absorption of production expenses in the second half-year. This meant that year-2012 margin was somewhat below target. |
| **Returns**<br>Return on capital employed exceeding 20% over a business cycle: | **20.3%**<br>21.3% excluding non-recurring expenses for staff reductions in the fourth quarter | Höganäs beat its target of a 20% return on capital employed for the third consecutive year, despite weaker sales volumes due to the recession. This was achieved through a focus on cash flow and reduced capital tied-up. |




Höganäs' business model is based on the Company working end to end in the value chain. The focus is on close collaborations with customers and end-users to develop new applications based on Höganäs' metal powder and powder mixes together. The goal is to develop cost and environmentally efficient solutions of high and consistent quality that can make customers successful and competitive. Apart from its development work, Höganäs supplies good-quality technical support with high availability worldwide.

# INNOVATION AND DEVELOPMENT

Höganäs has created global development centres, or PoP Centres, in Sweden and India to drive development towards broader usage of metal powders. The Group also has Tech Centres (for technical support) in Sweden, North America and China.

Höganäs has some 120 development engineers and technologists that work on research and development in six priority application segments. They work in tandem with PoP Centres towards the collective goal of developing an understanding of needs in each segment for application ideas and customer collaborations. Apart from joint development work with customers, Höganäs also runs collaborations with universities and research institutions worldwide.

## HÖGANÄS HAS SIX PRIORITY APPLICATION SEGMENTS:

### SINTERED COMPONENTS

For many years, Höganäs has been developing and enhancing metal powders and powder mixes that customers press and sinter into mechanical components such as crankshafts and gear-wheels in the automotive industry. These components can be made lighter and more efficient using powder metallurgy, conferring lower energy consumption and less material wastage. The usage of powder metallurgy components is increasing because they have the same high quality but can be produced at a far lower cost than forged components or cast materials.

### ELECTROMAGNETIC APPLICATIONS

Höganäs produces electric motors and inductors using soft magnetic components that are lighter, smaller and cheaper than those manufactured using traditional technology. They are also more efficient, and easier to manufacture and recycle.

### SURFACE COATING

Surface coating powders manufactured by using Höganäs metal powders that have high wear strength and corrosion resistance, are for example used for vehicle valves and hydraulic cylinders. Instead of manufacturing the complete application in special and high-cost metal alloys, these materials are used only on the surface of regular steel components for a far lower cost. This process achieves equally good, or superior, strength against abrasion and corrosion.

### BRAZING

Höganäs' iron-based brazing powder for high-temperature brazing has a lower content of high-environmental impact metals like nickel and copper. Apart from environmental gains, they offer high strength and are more cost efficient. Höganäs' brazing alloys for high-temperature brazing has very good capacity for filling brazing gaps, benefiting the brazing process. Applications include segments such as heat exchangers, EGR coolers (exhaust gas recirculation) and catalytic converters.

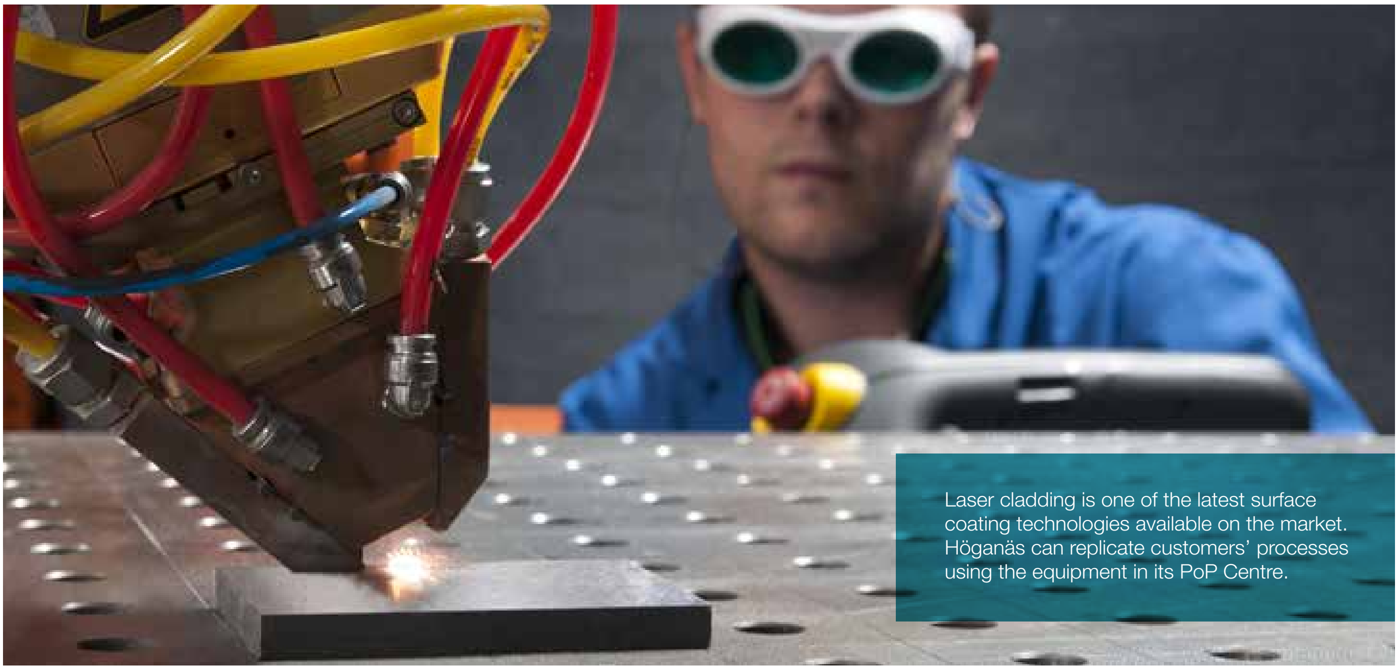
### FILTERS

Metal powders give filters better characteristics and they are more cost efficient to produce. Benefits include them withstanding higher temperatures, greater efficiency and longer useful lives. Exhaust purification in diesel engines and water treatment in water works are some of the application segments. Metal powder can also be used directly for decontaminating water or land.

### METAL INJECTION MOULDING (MIM)

This technology has the same benefits as pressed components, but design is more flexible. With unique alloys and the right binding agents, Höganäs enables the usage of coarser powders for MIM components. This means that it is possible to manufacture larger components with metal injection moulding, simultaneous with costs reducing significantly compared to traditional, finer MIM powders. Applications include surgical instruments, and components for mobile phones and electric hand tools.

# TECHNOLOGY AND INNOVATION: POP CENTRES



Laser cladding is one of the latest surface coating technologies available on the market. Höganäs can replicate customers' processes using the equipment in its PoP Centre.

## Höganäs is developing the future applications of metal powder alongside its customers

**Höganäs has created global development centres in Sweden and India called PoP Centres, which are the heart of Höganäs' application development process. Höganäs drives the development of broader-based usage of metal powders in its PoP Centres. The Group also operates Tech Centres (for technical support) in Sweden, North America and China.**

Höganäs has a total of some 120 engineers and technologists working on research and development. Many of them are committed to the six application segments that Höganäs prioritises: sintered components, electromagnetic applications, surface coating, brazing, filters and metal injection moulding (MIM). Each segment has a development function working on preparing new products and materials. They are in close collaboration with Höganäs' sales companies, where sales people often maintain daily contact with customers.

Höganäs also operates a group called Future Technologies, whose mission is to capture the latest trends in markets and research. This group is in close contact with leading universities, research institutes and networks worldwide.

### A SHARED GOAL

Höganäs engineers work and collaborate in PoP Centres towards the shared goal of transforming an understanding of needs in each segment into application ideas and customer collaborations. The development functions share their knowledge through PoP Centres, which might be shared issues such as developing binding agents, lubricants and other components for powder mixes, which benefit customers. Höganäs uses its PoP Centres to develop prototypes, perform analysis and testing, improve and enhance customers' manufacturing processes, and run internal and external training programmes.

### MATERIALS, DESIGN AND PROCESSES

Three product development segments are especially attractive to Höganäs customers: materials, design and processes. Höganäs can apply its powder metallurgy expertise to all three segments to develop new products. Alongside its customers, Höganäs has migrated upwards in the value chain and developed new applications such as electrical drive systems for electric bicycles, inductors for more efficient energy consumption and additive manufacturing with metal powder for component manufacture in segments such as consumer design, manufacturing, dental care, medicine and aerospace.

### STRONG POSITIVE CUSTOMER REACTIONS

Customers have been quick to react—initially there was some scepticism about whether Höganäs was attempting to take part of its customers' markets, but these reactions have transformed into being exclusively positive. The PoP Centres, with close customer collaborations, have become a catalyst for developing new applications and sharpening customers' competitiveness.

# TECHNOLOGY AND INNOVATION: ELECTRIC DRIVE SYSTEMS

## Höganäs launches a new drive system for electric bicycles

**Within Electric Drive Systems, Höganäs is benefiting from the unique characteristics of its SMC material (soft magnetic composite) Somaloy®. Höganäs' electric motors use this active material in the motor more efficiently than standard motors. Höganäs launched its new offering at the Eurobike show in Germany in autumn 2012. The reaction from potential customers exceeded our expectations.**

Höganäs' offering of electric drive systems for electric bicycles consists of electric motors, motor controls and displays. The motor is built from simple copper coils, pressed SMC components and magnets. The control is well adapted to the characteristics of the motor, and the display satisfies customer needs for a complete system for electric bicycles.

"This drive system is more efficient with less energy losses and the motor is also cheaper to produce. Additionally the three-dimensional electromagnetic design means the motor has higher torque density, improving drive system performance," commented Raissa Kruse, Manager of Electric Drive Systems at Höganäs.

### FOCUSING ON OEM CUSTOMERS

Höganäs is in collaboration with different companies on batteries and components like gears, brakes and throttle twist-grips. These collaborations ensure that drive systems are compatible with these components. Höganäs is primarily addressing OEM customers, the producers of electric bicycles. Customers are active in the bicycle sector, or new players from the rest of the automotive industry. In this first phase, customers are purchasing test systems from Höganäs.

We spend a lot of time on customer support, especially on finding the right system configuration jointly with the customer.

Raissa Kruse, Manager of Electric Drive Systems at Höganäs.

### A GROWTH MARKET

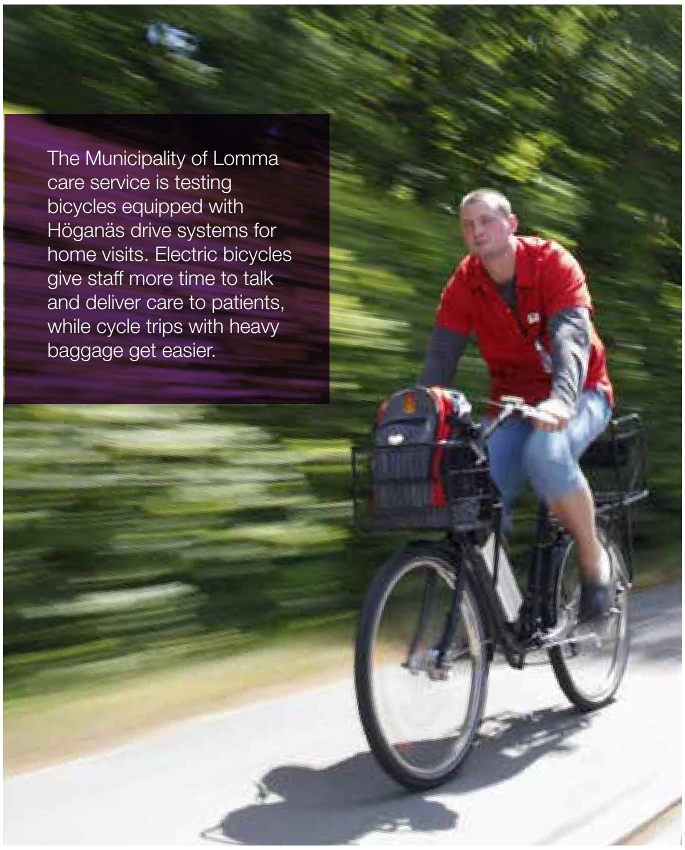
The estimated value of the European market for electric drive systems for bicycles is SEK 4 billion. The estimated yearly growth rate is some 15%. The market is driven by factors including environmentally friendly and cost-efficient personal transport solutions, especially in large cities with major air pollution problems. Parking problems, rising oil prices and legislation are also stimulating market growth.

### SUCCESS FACTORS

One critical success factor on the market is developing robust, reliable electric bicycles. This is where the electric drive system plays a central role:

"Our benefits are in our technology. We offer a value-for-money product with superior performance than most of the market's other players," adds Raissa, "while developing our system, we focused on product safety and creating a sustainable, low-maintenance product."

The next phase in Höganäs' EDS initiative is to migrate from smaller batches to volume production. The long-term target is to create a strong position on the drive system market for electric bicycles, which can be used as a base for further initiatives in adjacent segments.



The Municipality of Lomma care service is testing bicycles equipped with Höganäs drive systems for home visits. Electric bicycles give staff more time to talk and deliver care to patients, while cycle trips with heavy baggage get easier.

# TECHNOLOGY AND INNOVATION: INDUCTIT®

## Great interest in Höganäs' new inductors

**Höganäs' development of new products and segments is driven by its endeavour to identify new applications. Its initiative in Inductit® for various types of inverters is a good example. Inductit has quickly generated an array of contacts with interested customers.**

Höganäs has two applications under the Inductit® brand in inductor applications: inductors and powder cores.

Powder cores are standard components based on Höganäs' unique powder material, which customers can use themselves as building-blocks when manufacturing inductors. This product has good magnetic characteristics and offers low energy losses.

Höganäs' second offering, its inductors, are always based on the customer's unique needs, with tailored products optimised for their applications. They are based on Höganäs' unique design concepts, using pot cores.

Our inductors are in segments like solar energy, wind power, heat pumps, air conditioning and industrial motors. Demands are being set on utilising energy more efficiently for various processes and in different machines.

Lars Hultman,
Director Inductor systems.

Höganäs is involved in several projects, mainly in Europe and Asia. New potential customers are of different sizes, and active in various sectors. One key goal is to sell to large, leading multinational corporations.

### A MARKET IN HIGH GROWTH

The estimated value of the market for inductors in selected segments is over SEK 10 billion, with expected yearly growth of 15% over a business cycle. One key reason for this healthy growth is the way countries and societies generate, distribute and use electrical energy. Key drivers for this market include:

» Reduced dependence on nuclear power and other high environmental impact forms of energy, which are being replaced by renewables like solar and wind power, produced close to where they are consumed.
» Growing interest in electric vehicles
» Rising electricity prices stimulating the development of more effective systems for consuming electric current. This can be anything from electrical machines in manufacturing and air conditioning to household appliances that are more efficient.

### A LOT OF INTERESTED CUSTOMERS

In 2012, Höganäs participated at three expos in Germany, China and Japan, where it presented Inductit®. This attracted a lot of interest, and several customer collaborations and projects.

"We view this as a very promising start for our inductor offering. We've secured market acceptance that our concept is right, and that they see major environmental and technological benefits with our products," says Lars.

### SMART GRIDS BECOMING MORE IMPORTANT

The way to generate, distribute and consume electrical energy is undergoing revolutionary changes. Smart grids are the issue now, where power is generated close to the consumer, and environmentally. The common factor of these smart grids is electronically controlled inverters, necessary for the efficient generation and utilisation of electric current. Inductors are a central component of inverters. Several Höganäs projects have links to smart grid applications.

An inverter is used to convert DC to AC, or vice versa. The role of the inductor in the inverter can be compared to an electric filter, and is important for achieving good quality current. The inductor evens out fluctuations and creates a more consistent voltage so that there are no disruptions to the grid.

Höganäs has succeeded in creating clear value-added for the customer with Inductit®. Its inductors are compact and take up less space. This means inverters can be made smaller, and are thus cheaper to produce. Höganäs' inductors can also be put in a lot of different locations, such as on PCBs in the inverter, or actually outside the inverter. This is due to factors including inductors being protected from moisture and dust. Overall, this enables customers to achieve a more flexible design for optimised solutions.

# TECHNOLOGY AND INNOVATION: DIGITAL METAL®

Höganäs' technology for 3D printing with metal powder enables highly complex geometries and cavities. Höganäs offers a far superior surface finish on its components compared to other technologies that employ metal powder.

## Höganäs acquires the technology of the future, and focuses on Digital Metal®

**Höganäs acquired enterprise Fcubic AB in Gothenburg, Sweden in 2012. Fcubic has developed an additive manufacturing, or 3D printing, technology. Höganäs has integrated this business under the Digital Metal® brand. This transaction means Höganäs has acquired the best available technology in this segment.**

The acquisition of Fcubic is consistent with the Höganäs' vision of pushing the limits of metal powder. The Digital Metal segment will strengthen the metal powder market because 3D printing is expected to become an important component and system manufacture technology. Digital Metal will create substantial value for customers that require improved performance, shorter development lead-times and customer-specific components on a large scale.

### MAJOR BENEFITS OF 3D PRINTING

3D printing is the everyday term for processes where physical objects are created by printers in different materials. This process builds components and other products layer by layer, direct from a 3D CAD drawing.

> This technology eliminates the need for complex and expensive tooling with long delivery lead-times. It cuts development lead-times and enables the manufacture of highly complex components.

Hans Kimblad,
Technical Sales Manager
at Höganäs

3D printing is suited for small-batch mass production. Examples of applications include manufacturing jewellery, dental applications and technical components such as sensor housings in manufacturing.

"Our technology offers effective, flexible production where we can produce various types of components with zero turnaround time, very quickly. Digital Metal also offers a superior surface finish and component complexity than offered by competing 3D printing technologies," says Hans Kimblad, Technical Sales Manager at Digital Metal.

### BILLION-DOLLAR MARKET POTENTIAL

This acquisition will mean Höganäs applying its expertise in powder metallurgy to expand the application segments of 3D printing of components. Components of up to 100 g mass in segments like consumer design, manufacturing, dental care, medicine and aerospace can be converted to 3D printing. The total estimated market potential is some USD 1 billion.

In the first phase, Höganäs will be manufacturing components itself. The Company already has component development agreements with manufacturers of medical devices and jewellery.

# THE COMPONENTS BUSINESS AREA

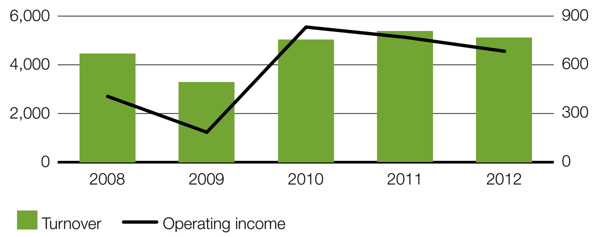
## Lower sales and a sharper focus on development

- » The Components business area reported somewhat lower turnover in 2012, MSEK 5,119 (5,378) compared to the previous year.
- » Operating income remained at a good level, with a profit margin of 13.3% (14.2).
- » Significant advances in the development of metal injection moulded (MIM) components.
- » Höganäs launched its Starmix® 500i and Distaloy® AQ powder mixes, and new additives for machining.
- » The construction of a metal powder mixing plant in South Korea to get closer to component manufacturers for the Korean car industry. This plant is expected to be completed in the second half-year 2013

**KEY INDICATORS, BUSINESS AREA**

| MSEK | 2012 | 2011 |
|---|---|---|
| Net sales | 5,119 | 5,378 |
| Operating income | 680 | 766 |
| Operating margin, % | 13.3 | 14.2 |
| Assets | 4,542 | 4,708 |
| Investments | 334 | 356 |

**TURNOVER AND OPERATING INCOME, MSEK**




The Components business area consists of all the iron and metal powders refined into components. First and foremost, Components currently consists of the market segment for pressed components. Development work is also conducted in the two segments of soft magnetic and injection moulded components.

Soft magnetic components focuses on supporting the development of inductors and electric drive systems. Injection moulded components develop MIM technology—small, metal injection moulded components with complex geometries for use in segments including the automotive industry, IT, mobile telephony, medical devices and electric hand tools.

### PRESSED COMPONENTS

The pressed component segment is Höganäs' largest, and represents 76% of the Company's turnover. Customers are mainly among manufacturers for the car industry. Components manufactured using Höganäs powder mixes include gear-wheels and syncro hubs for gearboxes, brakes, shock absorber components, crankshafts, components for adjusting engine valves, etc.

Powder components are pressed and sintered directly to their complete form, and accordingly, do not need milling and turning, unlike forged or cast components. The use of iron and metal powders consumes less resources, providing higher yields and lower cost of materials. With fewer working processes, throughput times are also reduced. The result is greater efficiency, lower energy consumption and less environmental impact.

### CUSTOMERS

Customers are component manufacturers, who in turn, deliver components via product or system manufacturers or directly to OEMs. Often, end-customers are in the automotive industry. In some cases, products are delivered in four steps: Höganäs metal powder–component manufacturer–gearbox manufacturer–car producer. Sometimes, Höganäs delivers to the gearbox manufacturer, or directly to the car producer. Höganäs' customers may be local players or major multinationals with a global presence.

### MARKET

The market for pressed and sintered components is worth some SEK 15 billion, with an estimated annual growth rate of 4-6%. The three largest players are Höganäs, GKN of the UK and QMP of Canada, which is owned by multinational mining corporation Rio Tinto Group. Höganäs' competitive advantages are the high technology level of its products and economies of scale in production and distribution. Asia represents 40% of this market, North and South America 30% and Europe 30%.

Success factors for the market include:

- » The capacity to develop and improve existing solutions for transmission gearboxes.
- » Better utilisation of support technologies, such as pressing and sintering.
- » Developing new concepts for future applications.
- » Regional development centres for closeness to customers.

## TARGETS AND STRATEGY

Höganäs' target is to grow by 6-8% per year in Components. Key business targets include developing unique metal powder mixes and additives, creating an attractive offering with good service, developing new applications jointly with customers, and starting up and consolidating its presence on new markets, especially growth markets.

The strategies for achieving these targets include developing proprietary powder solutions and additive materials, such as lubricant mixes to facilitate machining, closer partnerships with OEM customers on development issues and support to improve customers' processes for powder usage. In addition, the aggregated know-how in the materials, processes and design segments harboured by Höganäs' PoP Centres are important for development work and marketing to customers. Close collaboration with partners in equipment manufacture, design development, tooling development and furnace development is another central strategy.

## PROGRESS IN 2012

The market in Europe was poor, with significantly lower sales compared to 2011. A progressive decrease in car production after the first quarter of 2012, combined with lower industrial production, resulted in noticeably lower demand in 2012.

Sales were up somewhat on 2011 in North America, adjusted for the one-off volumes delivered to Hoeganaes Corporation in 2011. Demand from the car industry was firm, but weaker from other customers, such as subcontractors to garden products and household appliances. Sales volumes in South America were restrained by continued low car production volumes, although sales did improve in the autumn.

Sales were in high growth in Asia, especially in the first half-year due to the recovery in Japan after the previous year's production disruptions caused by the tsunami. This market was also favoured by extended environmental vehicle discounting. Better car statistics gradually became apparent in China in the period, credit easing and positive momentum for foreign car producers. This favoured Höganäs' sales volumes. Demand in India was negatively affected by repeated interest rate increases combined with rising fuel prices.

## SOFT MAGNETIC COMPONENTS

In the soft magnetic components market segment, Höganäs makes some sales of powder and technical support for components for the car industry and manufacturers of household appliances.

The focus of this operation is on developing new applications, including electric drive systems for bicycles and inductors for usage in segments such as solar energy, wind power, heat pumps, air conditioning and industrial motors, see pages 11-12.

## INJECTION MOULDED COMPONENTS

Höganäs made significant advances in materials for metal injection moulded components. Höganäs' development work demonstrates that the combination of the right alloys and binding agents enables the usage of coarser powders for metal injection moulded components. Application segments of these components extend from the automotive industry and medical devices to manufacturing components for mobile phones and electric hand tools.

The estimated value of the current market for MIM components is some SEK 1 billion. Höganäs' starting point is that the results of development work currently being conducted mean that this market could double in time.

## FOCUS IN 2013

One central issue for 2013 will be developing and securing customer acceptance for a conceptual solution for transmission gear-wheels covering materials, design and processes. Höganäs is also focusing on developing a new lubricant concept for pressed components. In addition, the development of enhanced soft magnetic materials for the inductor application is continuing. Moreover, Höganäs will be launching its new coarse MIM powder and feedstock globally.

# THE CONSUMABLES BUSINESS AREA

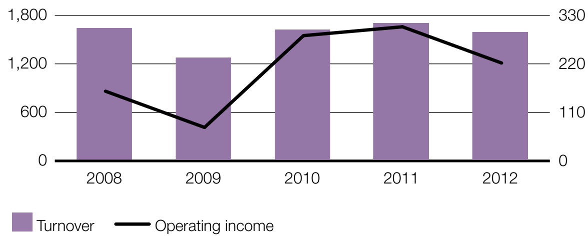
## Wide variations and lower sales

- The Consumables business area reported turnover of MSEK 1,593 (1,703) for 2012 compared to the previous year, down by 6%.
- Operating income remained at a good level, MSEK 223 (305), with an operating margin of 14.0% (17.9), despite a volatile market with currency and price fluctuations.
- Höganäs built a pilot plant for water treatment in Brazil in the year, and secured new business in surface coating of valves and valve seats.
- The agreement with Innobraze of Germany progressed positively in 2012. This agreement transfers brazing paste technology to Höganäs, who has enhanced brazing pastes with premium quality and performance for customers that produce EGR coolers and heat exchangers.

**KEY INDICATORS, BUSINESS AREA**

| MSEK | 2012 | 2011 |
|---|---|---|
| Net sales | 1,593 | 1,703 |
| Operating income | 223 | 305 |
| Operating margin, % | 14.0 | 17.9 |
| Assets | 1,148 | 1,129 |
| Investments | 106 | 110 |

**TURNOVER AND OPERATING INCOME, MSEK**




Höganäs sells iron powder and high-alloy metal powder in the Consumables business area, for use in industrial processes like surface coating, welding and brazing. Metal powder is also used in a number of other segments such as the chemical and metallurgical process industries, exhaust purification, treating soil and water, and as additives in food and animal feed. Consumables represents 24% of Höganäs' turnover.

### MARKET SEGMENTS

Development work is conducted in the surface coating, brazing, filters and water treatment market segments. Applications in development include surface coating of components in the agricultural, marine/offshore and glass industries, and brazing of heat exchangers and catalytic converters.

Welding is another established segment, where Höganäs delivers high volumes of iron and metal powders to producers of welding materials. Iron powders in welding electrodes improve welding characteristics and the quality of the welded item.

Surface coating with metal powders is an effective method for increasing corrosion and abrasion resistance. Instead of manufacturing solid products from high-cost metal, the product is coated with a protective metallic layer for superior performance.

High-temperature brazing with metal powder-based braze paste optimises the brazing process and the characteristics of the end-product. High environmental impact metals are replaced with iron, which offers high strength and corrosion resistance, as well as cost-efficiency and less environmental effects.

Filters for treating water, earth or exhaust become more cost-efficient and maintain higher quality using metal powder. This increases their efficiency and useful lives.

### CUSTOMERS

Sales in the Consumables business segment are mainly to OEM companies active in a series of industries and sectors. Examples include brazing, surface coating, welding, the food and pharmaceutical industries. Höganäs also makes some sales to subcontractors of these industries, and in certain cases, direct to end-customers.

Welding is a widespread joining technique in marine/offshore and construction designs, so Höganäs delivers to a large base of welding material vendors worldwide. High-temperature brazing is primarily used in the growth market for catalytic converters, EGR coolers and heat exchangers.

### MARKET

The market for consumables is fragmented, with customers from various sectors. In recent years, this market has been highly volatile, so there is no overall market data. Often, iron or metal powders are embedded in consumable goods in different processes, and accordingly, consumables generally feature shorter and less regular order intake over time. This also means that a high sales share is volume based.


## HÖGANÄS IMPROVES EGR COOLER QUALITY TOGETHER WITH BENTELER

**The acquisition of Innobraze has meant that Höganäs develops and supplies brazing pastes directly to OEMs, like Benteler. For Benteler the use of Höganäs' brazing paste BrazeLet®613 offer significantly improved corrosion resistance in EGR coolers. The usage of this paste has also enabled Benteler reduced consumption of the brazing alloy and a more robust brazing process.**

In the sectors the Company is prioritising, the estimated value of the market for surface coating is some SEK 3 billion, where Höganäs' market share is some 20%. The estimated value of the market for brazing is SEK 1 billion, and the Company's market share is less than 5%.

Apart from Höganäs, there are several players in different market segments. Wall Colmonoy of the US (a powder producer focusing on surface coatings and high-temperature brazing), Carpenter (surface coating), Fukuda of Japan (high-temperature brazing) and Hoeganaes Corporation (welding) are a few examples. There are a number of players in water treatment, although the market is primarily divided into various technologies based on ion-exchange or reverse osmosis.

The success factors on Consumables' markets include:

» Cost-efficient customer solutions that reduce environmental impact.
» Good knowledge of customers' products and processes.
» Unique products and solutions.
» Specialised, technically skilled sales organisation.

### TARGETS AND STRATEGY

Höganäs' target is to grow by 6-8% a year in Consumables, but this market is complex, with each segment and market managed according to its needs and circumstances.

In priority segments within Consumables, Höganäs' ambition, in time, is to be the market leader in surface coating and high-temperature brazing, and to establish a presence on the water treatment market. Growth in the welding segment tracks general demand for steel. Höganäs' target is to continue to maintain high quality of products and services for the welding market to retain and strengthen its position on the market.

Höganäs' strategy to strengthen its market position is to operate end to end in the value chain, from distributor to end-customer. Höganäs will achieve this by continuing to develop and deliver unique powders and powder mixes with new characteristics, of high and consistent quality. In addition, Höganäs will continue to deliver technical support and training for its customers and continue developing new applications alongside customers and end-users. The Company will also establish and strengthen its presence on new markets, especially growth markets.

### PROGRESS IN 2012

Höganäs' sales volumes in Consumables decreased in 2012 compared to 2011. Growth numbers alternated with sales decreases, not least in the second half-year 2012, due to the international economic recession and downscaled investments, primarily in Europe, where most market segments contracted. The exception is sales in the brazing segment in Europe, which progressed well in the year.

Sales decreased in North America as a result of relocations, while South America returned sequential growth. Increased sales of iron powder to ferro-niobium manufacture (for micro-alloying of high-strength steel) in Brazil are the primary explanation.

Overall sales in Asia were down on 2011, with a mixed picture. Growth in the cutting, hot bags and metallurgy industry segments continued, while sales to the welding industry decreased. Demand from the construction sector, one of the primary market segments for Höganäs' welding industry applications, decreased significantly as a result of fewer, or delayed, infrastructural investments in China and India.

### FOCUS IN 2013

Next year, Höganäs will continue developing unique products addressing specific applications in surface coating and high-temperature brazing. Höganäs also intends to launch a cost-efficient product for surface coating with PTA (Plasma Transfer Arc) technology. Höganäs' ambition is to advance in water treatment projects. Because there is a shortage of clean water, the development prospects in this segment are substantial.

# SUSTAINABILITY AND HUMAN RESOURCES

## Sustainability work in continuous development

**Höganäs' long history has been permeated by sustainable development and corporate social responsibility, and still is today. But our work on caring for people and the environment has changed over time. Central issues nowadays include better utilisation of resources, increased energy efficiency, good occupational health and safety and a code of conduct for suppliers.**

There was a time when the Company provided its employees with schools, housing and a cottage hospital. There was even a time when Höganäs had its own monetary operation and Höganäs currency. But now things are different. Höganäs is part of the global economy, although its work on sustainability and corporate social responsibility continues.

The Company's mission is to create profitable growth and new business, both for its own operations, and its customers and other partners. It is only then that lasting values and long-term progress can be generated. The focus is on improving Höganäs' and its customers' products and processes, which in turn, results in superior technology solutions and utilisation of resources. This work is ongoing within Höganäs and in sector-wide research.

### UTILISATION OF RESOURCES, ENERGY EFFICIENCY AND HEALTH AND SAFETY

Höganäs has identified three segments where sustainability work has extra importance: the utilisation of resources, energy efficiency and occupational health and safety.

Our "Zero Waste" vision—where the Company doesn't generate any sector-specific waste—is an example of how Höganäs is working on the utilisation of resources. The starting-point is that anything that cannot be defined as a main product from manufacture is a residual product. In 2012, Höganäs built a dispatching point for lime from the tunnel kilns, a product of slag from the Sponge Iron plant at Höganäs. Tunnel kiln lime is sold for various purposes including soil stabilisation. Soil stabilisation enables loamy and subsiding land to become usable for the construction of housing and other buildings.

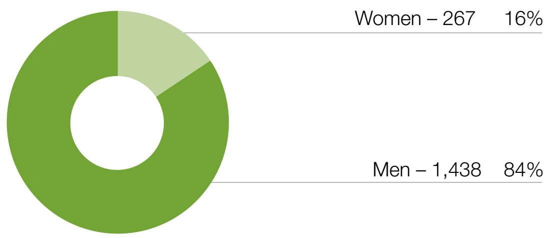
Energy efficiency is a matter of reducing total energy consumption per produced ton, and increasing production. The target is for the Company to become 10% more efficient in 2020 than the base year 2010. This will be achieved through a combination of rationalisation, process re-engineering, the exchange of best practice and investments. All employees should take training in energy awareness and energy management systems to increase their knowledge in this segment and give people the opportunity to make a contribution to Höganäs' "Energy Challenge -10% 2020."

In 2012, Höganäs consumed 1,650 kWh/ton of finished product, a reduction on 2011. The target is to cut Höganäs' energy needs to 1,500 kWh by 2020. Höganäs has already succeeded in reducing its energy consumption by 10% per produced ton in the last 10 years.

For a processing company like Höganäs, the working environment and safety are crucial. Höganäs should be a safe and healthy workplace without any workplace accidents: the "Zero Accidents" vision. All regions have been integrated in collective occupational health and safety work since 2010. In the year, actions included the introduction of a collective occupational health and safety directive. In this context, Höganäs developed a tool for evaluating working methods and organisational maturity for systematic occupational health and safety work. The purpose of the occupational health and safety directive and evaluation tool are to create an understanding-based dialogue and exchange of best practice within Höganäs.

| SUSTAINABILITY SEGMENT | VISION/TARGET | OUTCOME 2012 | COMMENT |
|---|---|---|---|
| UTILISATION OF RESOURCES | Zero Waste | 80% | Recycling of residual materials increased to 80% in 2012. Höganäs built a dispatching point for tunnel kiln lime, which is created from a residual product. Höganäs can now sell tunnel kiln lime for various purposes. |
| ENERGY EFFICIENCY | "Energy Challenge -10% 2020," Höganäs will be 10% more efficient by 2020. | -3% | Specific energy consumption was cut by 3% in 2012 compared to the base year 2010. |
| OCCUPATIONAL HEALTH & SAFETY | Zero Accidents | 0.093 injuries at work per 1,000 tons of powder produced | A collective occupational health and safety directive was introduced in the year. This key ratio includes all accidents resulting in absence. |

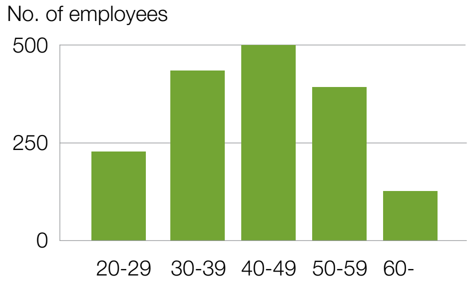
## DIVISION, NO. OF EMPLOYEES



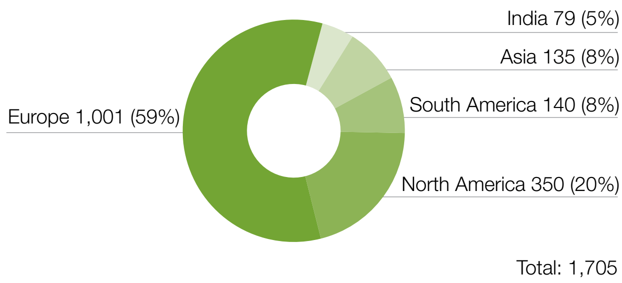

## EMPLOYEE KEY RATIOS

| | 2012 |
|---|---|
| Turnover per employee, MSEK | 3.94 |
| Average age | 42.9 |
| Average number of employees | 1,705 |
| Of which men | 1,438 |
| Of which women | 267 |

## AGE PROFILE




## NUMBER OF EMPLOYEES BY REGION




## SUSTAINABILITY END TO END IN THE VALUE CHAIN

The most important factors for continuously developing sustainability work are understanding and knowledge. This is achievable through communication and a collective target for improved utilisation of resources. Höganäs proceeds from all parts of the value chain taking responsibility for their link in the chain. This is why Höganäs introduced a Code of Conduct for its suppliers in 2011.

In 2012, Höganäs started work on evaluating and analysing those suppliers that represent the Company's strategic flows, primarily suppliers of raw materials, such as metals and transportation services, who have the greatest impact on the Company's operations in relation to risks, being businesslike and customer relations. These suppliers completed a web survey to self-assess their own operations. Their responses will be set against the standards of Höganäs' code of conduct in 2013. In its evaluation process, Höganäs can ensure improvement measures for continued positive and profitable relationships are put in place jointly with the supplier.

## CORPORATE COMPETENCE CENTRE

Höganäs' Group-wide Corporate Competence Centre coordinates Höganäs' sustainability work. The Corporate Competence Centre includes specialist competences from HR, environment and safety. All regions are represented in this organisation to ensure a clear division of responsibility and implementation. Representatives meet regularly, report according to key ratios and develop best practice together, which is then introduced regionally.

## IDENTIFY, RETAIN AND DEVELOP THE RIGHT COMPETENCE

It is important for Höganäs to be a good employer in order to attract the right competence. This is about a contemporary approach to nurturing long-term traditions, with the Company caring for its employees, while also providing a clear challenge in their work. There are great opportunities for mobility within the Group—between regions and functions. There are also a lot of examples of how using Höganäs scholarship funds, employees take further study and continue their career within the Company.

## E-LEARNING

Broad geographical diversity is a guarantee of local knowledge and closeness to customers, but also a challenge to disseminate best practice and internal communication. Höganäs has introduced an e-learning tool available to all employees. In 2012, Höganäs launched a basic course in energy efficiency for increased understanding of the Company's sustainability work, and a course in pricing.

In 2012, Höganäs started work on a new module in the HBA called "Knowing Höganäs." The intention is to provide basic and broad-based knowledge of Höganäs as a company, from its inception in 1797 to today's business and corporate culture.

## THE HÖGANÄS BUSINESS ACADEMY

The Höganäs Business Academy (HBA) is an initiative to develop the competence of managers and key staff. This program includes a number of modules such as leadership, business practice and strategy work. Höganäs uses the HBA to identify and develop talented individuals to ensure succession in key functions.

## EMPLOYEE SATISFACTION SURVEY

In October 2012, Höganäs conducted a satisfaction survey for all employees, which it runs every other year. Internal communication got a low score in the previous survey in 2010, and as a direct result, Höganäs introduced a new global intranet. The satisfaction survey has broad coverage including questions on the Company's position on the market, management, individual roles and prospects of influencing their situation at work.

88% of employees responded to this year's survey, up 3% on the previous one, which is a very high response frequency for this type of survey. Overall, all responses were more positive in 2012 than 2010, and this applies especially to overall satisfaction and loyalty. Results have been analysed by region and country, and work on identifying potential improvements based on the results is now starting.

## HÖGANÄS' CORE VALUES

### ACTIVE

Being a partner that listens, and is responsive to, expressed wants and underlying needs. All Höganäs employees are expected to be active in their relationships with customers, suppliers and colleagues. We meet challenges together.

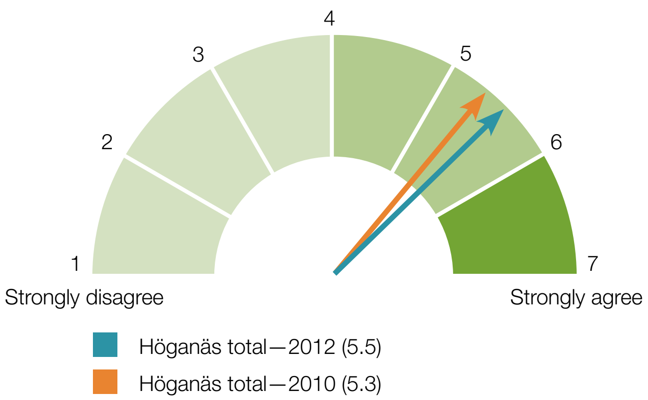
### BRAVE

Höganäs is confident that all its employees have the possibility and courage to face challenges in their daily work and in their contact with customers, colleagues and other parties. Being brave means daring to question old truths and routines by trying new ideas and methods. In this way, everyone can help develop the Company.

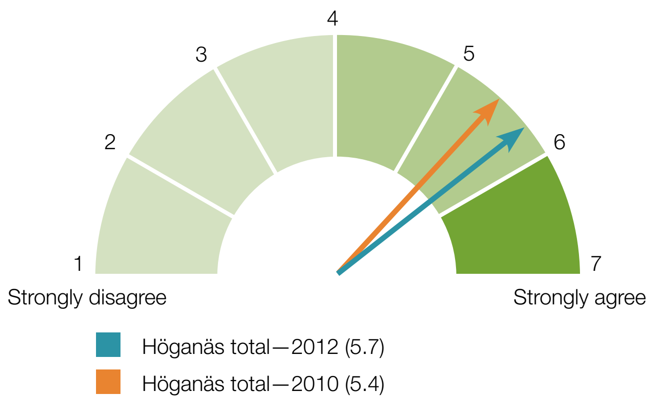
### CARING

Höganäs expects all employees to be committed to their duties, colleagues and customers to realise the Company's vision and push the limits of metal powder. Being committed also means taking care of each other and doing that little extra to achieve the targets set.

### SATISFIED WITH HÖGANÄS AS AN EMPLOYER




### LOYALTY



# RISKS AND RISK MANAGEMENT

**Höganäs' operations are characterised by raw materials intensity, and its production, customers and competitors being in many countries, which exposes the Company to changes in its surroundings. With its positioning as the market leader in several segments, and with operations fairly evenly allocated between Europe, America and Asia, the Company is strongly positioned and has natural risk diversification. However, altered exogenous factors always create risks and opportunities. Accordingly, the management of operational and financial risks is of central significance. Höganäs works actively to manage risks so that undesired income effects and potential disruptions are limited.**

## FINANCIAL RISKS

Progress in the world affects exchange rates, interest rate levels, metal and energy prices. Höganäs has expenses and revenues in a number of currencies. In addition, metals and energy are important input goods, resulting in significant exposure to financial risks. Höganäs' Finance Policy states the targets, guidelines and risk mandates for how financial risks should be managed. The Finance Policy covers funding, liquidity management, credit risks, currency risks and interest risks, as well as price risks on metals and energy. Höganäs' finance unit is responsible for the Group's management of these risks and serves as an internal treasury. Because work is conducted Group wide, strict management of the Group's financial risks and better internal control, is safeguarded.

To explain how Höganäs is exposed to financial risks, it is best to start from a review of its business flow.

Höganäs purchases metal, which is refined into metal powder products. When the products are sold, there is a price adjustment to current market prices of the metals input into production. Accordingly, from a risk perspective, operations can be viewed as consisting of two parts. The first relates to the purchase and sale of raw materials in the form of metals, the second part is the industrial refinement process of raw materials into metal powder products. The purchase and sale of raw materials create exposure to price fluctuations. The refining process gives rise to exposure to several currencies through goods being produced with costs in certain currencies and sold in markets where to some extent, payment is in other currencies. In addition, there are price and currency risks resulting from other input goods, cost of capital and energy costs. In what follows, each risk is described separately, alongside an explanation of how risks are managed. Each sensitivity analysis is before considering hedging.

| FINANCIAL RISKS | MANAGEMENT | EXPOSURE |
|---|---|---|
| **Price and currency risks from the purchase and sale of metals**<br>Usually, purchasing is through call-off agreements, which state that price is based on the market price applicable at any time, with a predetermined time-delay. Correspondingly, the sales agreement states that the price of metal powder includes a set share of raw material, whose price should be based on applicable market price with a predetermined time-delay. This means that the price risk arises when the purchasing price is determined. The price risk subsequently continues until the day when the price of the metal powder product in which the raw material is included is determined in accordance with the sales agreement. However, currency risk does not apply until the purchase is paid for, and remains until the customer receivable is settled.<br>The portion of exposure relating to accounts payable and accounts receivable are managed separately, as described below. | Raw material and currency risks can be limited by the counter value of the current exposure at any time within the Group being hedged using derivative instruments, primarily forwards. The intention is to minimise the effect of price and exchange rate fluctuations in tandem with purchasing and selling raw materials and metal powder products as far as possible. However, prospects of completely eliminating these risks are limited by several factors. This would require access to perfect information on future business flows. In addition, there are no effective marketplaces for some metals, which means the cost of price hedging would be unreasonably high. In 2012, Höganäs utilised derivative instruments for metals only for price hedging nickel, copper and molybdenum.<br><br>**Finance Policy:**<br>Höganäs' Finance Policy states that price and exchange rate risks resulting from the purchase and sale of raw materials and raw material content in various products should be 90% hedged, providing that there are effective markets for hedging instruments. Non-compliance is permitted within a risk mandate approved by the Board of Directors. | The total cost of purchasing metals was some SEK 3 billion in 2012. However, Höganäs' net exposure is significantly lower.<br><br>**Sensitivity analysis for certain significant metals:**<br>Metal price fluctuation. Income effect from exposure, MSEK:<br><br>Copper + 10% -1<br>Nickel + 10% 11<br>Molybdenum + 10% 1<br>Scrap + 10% -5<br><br>For more information on outstanding hedging, see Note 31. |
| **Currency risks in the refinement process**<br>The industrial refinement process of raw materials into metal powder products gives rise to exposure in several different currencies. This exposure is dependent on where and how the product is produced, as well as where products are sold. Over a limited time, this risk can be limited by the counter value of the exposure being purchased or sold via a metal and/or currency forward, or with other derivative instruments. Here too, the forecast accuracy of the Company's business flows can affect the prospects of completely eliminating these risks. | The goal of hedging strategy is to eliminate the currency effect from that portion of sales revenues that correspond to value-added as far as possible. Accordingly, Höganäs can mitigate the effects of exchange rate fluctuations, primarily in the short term, using derivative instruments. In the long term, Höganäs is always exposed to the impact of changed exogenous conditions. For the long term, Höganäs safeguards itself from currency risks by its operations being diversified over several countries, and by continuously adapting its operations to changed exogenous circumstances.<br><br>**Finance Policy:**<br>Höganäs' finance policy states that net exposure sourced from the refinement process should be hedged up to 90% for a horizon of up to 15 months. Non-compliance is permitted within a risk mandate approved by the Board of Directors. | Currency exchange rate fluctuation income effect from exposure, MSEK:<br><br>USD/SEK +10% 76<br>EUR/SEK +10% 85<br>JPY/SEK +10% 25<br>Other +10% 19<br>Total 205<br><br>For more information on outstanding hedging, see Note 31. |
| **Currency risks on accounts receivable and accounts payable**<br>Accounts receivable and accounts payable arise when purchasing and sales are accounted. Outstanding accounts receivable and accounts payable are restated to current rates of exchange at the end of each month. | Höganäs hedges the net of accounts receivable and accounts payable. The goal is to eliminate currency risks as far as possible.<br>Accounts receivable and accounts payable are recognised together with hedging instruments at the rate of exchange ruling on the reporting date and exchange rate fluctuations are recognised in the Income Statement.<br><br>**Finance Policy:**<br>The Finance Policy states that this exposure should be 100% hedged. Hedging is for up to two months, using forward contracts. Non-compliance is permitted within a risk mandate approved by the Board of Directors. | The net of accounts receivable and accounts payable in 2012 was an average of MSEK 350 (385) per month. |

| FINANCIAL RISKS | MANAGEMENT | EXPOSURE |
|---|---|---|
| **Currency risks on assets in foreign currencies**<br>Currency risks also arise on the translation of foreign subsidiaries' assets, liabilities and results of operations to the Group's presentation currency, termed translation exposure. The Group's presentation currency is Swedish kronor. | Considering that Höganäs has a significant portion of its capital employed denominated in foreign currency, primarily, borrowings are raised in these currencies directly. The strategy is that the net investments in the form of lending and equity in foreign convertible currencies within the auspices of volumes of external borrowing, should be price hedged by arranging loans in the same currency. Hedge accounting of net investments in subsidiaries is applied to this borrowing, and the restatement is recognised in the hedging reserve within equity, via other comprehensive income.<br><br>**Finance Policy:**<br>Höganäs' Finance Policy states that in currency terms, the Company's interest-bearing liabilities should be allocated to match the Company's net investments in foreign currencies. If net investments exceed external borrowings, there is no requirement for the excess portion to be hedged using currency forwards. Non-compliance is permitted within a risk mandate approved by the Board of Directors. | Net investments in foreign subsidiaries amounted to MSEK 2,638 (2,367). The translation difference is stated in Note 21, equity. |
| **Finance risk**<br>Finance risk is the risk associated with the Group's funding requirement from loan agreements that expire, and an increased requirement for capital. | The objective is that at any time, the Group should have access to committed long-term credit facilities that cover the needs of its operations with a satisfactory margin. Primarily, surplus liquidity should be used to amortise interest-bearing liabilities.<br><br>**Finance Policy:**<br>Höganäs' finance policy states that the Company should secure access to borrowed capital through credit facilities exceeding an amount decided by the Board of Directors. | Current credit facilities amount to MEUR 200, were arranged in November 2012 with a syndicate of three banks, and mature in November 2017. Höganäs also has an uncommitted credit facility arranged with Svensk Exportkredit (SEK) in 2012. Subsidiaries also have local overdraft facilities, which have been approved by the Parent Company. The utilised portion at year-end and outstanding volumes of other credit facilities are stated in Note 31. Covenants for committed credit facilities are stated in Note 23. |
| **Interest risks**<br>Interest risk is the risk of the Group's net interest income/expense progressing worse than expected given an increase in interest rates and/or interest rate decrease. Höganäs is a net borrower, and accordingly, the Group is exposed to a risk of a deteriorated net interest income/expense on increasing market interest rates. With excessively short fixed-interest periods, an interest rate upturn would have an excessive impact, and with an excessively long fixed-interest period, an interest rate decrease would have an excessively slow impact. The selection of fixed-interest period should strike a balance between these extremes, selected on the basis of the Company's circumstances. | Höganäs' borrowings within its credit facilities are usually on three-month maturities. The fixed-interest period is then controlled using interest derivatives. The Finance Policy states how much of interest-bearing liabilities should be fixed using different maturity intervals. As the Company's interest-bearing liabilities decrease, this exposure to interest risk has reduced.<br><br>**Finance Policy:**<br>Höganäs' Finance Policy states that interest risk should be limited by 40% of its liability having a fixed-interest period longer than one year. Non-compliance is permitted within stated risk mandates. | At year-end, interest-bearing liabilities were MSEK 625 (952) and the average fixed-interest period on these liabilities was 0.4 (0.8) years including interest swaps and 0.2 (0.2) years excluding interest swaps. Short-term and long-term investments and cash and cash equivalents amounted to MSEK 176 (109) and the average fixed-interest period on these assets is 0.1 (0.2) years.<br><br>**Sensitivity analysis:**<br>A one percentage point interest rate fluctuation would affect the Company's net interest income/expense by MSEK 6 in a one-year horizon.<br><br>For more information regarding outstanding hedges, see Note 31. |
| **Energy price risks**<br>The refinement of metals into metal powder is energy intensive. Höganäs purchases energy in the form of electricity, oil and natural gas. | Future costs for energy purchases are hedged in accordance with the Policy using financial derivative instruments or fixed-price contracts from suppliers. By price hedging purchasing in this way, Höganäs secures a slower impact of price increases and evens out variations in yearly energy costs.<br><br>**Finance Policy:**<br>Höganäs' finance policy states that energy price risks should be hedged with predetermined percentage rates of up to 18 months' horizon. Non-compliance is permitted within stated risk mandates. | The Group's purchases of electricity, oil and natural gas amounted to a value corresponding to MSEK 424 (443) in 2012.<br><br>**Sensitivity analysis:**<br>Electricity + 10% -31<br>Natural gas + 10% -11<br>Total -42<br><br>For more information on outstanding hedges, see Note 31. |
| **Credit risks**<br>Financial credit risks arise through financial contracts that Höganäs enters in tandem with derivative instruments and investments. The financial credit risk for derivative instruments consists of the risk of a counterparty that Höganäs has entered a derivative contract with becoming insolvent, and that current market value involves an unrealised receivable that the counterparty cannot pay.<br>Correspondingly, an investment constitutes a financial credit risk through the investment consisting of a receivable from the counterparty.<br>Operational credit risks arise through receivables from customers (see operational risks on the following page). | For derivative instruments, Höganäs usually uses banks where the Group has a committed credit facility in place. Accordingly, Höganäs' credit risk is limited through the right to offset liabilities and receivables.<br>Regarding investments, Höganäs endeavours to secure a corresponding working method by investments mainly being with those banks with which Höganäs has credit facilities. In addition, there are less investments with local banks that subsidiaries use as transaction banks.<br><br>**Finance Policy:**<br>Höganäs' Finance Policy stipulates limits for the size of net receivables from counterparties for derivative instruments and investments. | Höganäs' credit risk exposure at year-end is stated in the following table. See also Note 18 accounts receivable/credit risk.<br><br>Accounts receivable 826<br>Cash and cash equivalents 148<br>Short-term and long-term investments: 30<br>Derivatives (market value as of 31 Dec. 2012) 78<br>Total 1,082 |

## OPERATIONAL RISKS

Höganäs' customers set high standards for quality and delivery reliability. Accordingly, operational risks occurring in the production chain can have serious consequences. Operational disruptions due to transport problems or fire, explosion or other types of accident can be costly. To minimise the risk of consequential losses, Höganäs maintains reserves of raw materials and finished goods. Production can also be relocated within the Group to minimise the risks of production shortfalls. A number of risks, with an explanation of how they are managed, follows.

| OPERATIONAL RISKS | MANAGEMENT AND EXPOSURE |
|---|---|
| **Production disruptions or stoppages**<br>The production of metal powder is a chain of processes, so disruptions at various points can have major consequences. Production stoppages due to transport problems or fire, explosions or other types of accident can be costly.<br>Purchasing risks include delivery reliability, quality and pricing of materials and energy. | To minimise the risk of consequential losses, Höganäs maintains reserves of raw materials and finished products. Production can also be relocated within the Group. Höganäs conducts extensive annual inspections of all production facilities within its LPM (risk management and loss prevention) process. Regular and systematic damage prevention work is conducted with Höganäs' insurer FM Global, designed to reduce the risk of production disruptions further. To achieve the highest safety classification for its more significant plants, Höganäs extended its damage prevention work in the year, with a special focus on processes and investments in physical safety systems.<br>Höganäs endeavours to maintain at least two suppliers for selected strategic raw materials.<br>The Parent Company is responsible for coordinating the purchase of certain strategic goods, while other risks are managed locally in each production facility. |
| **Insurance risks**<br>Insurance risks relate to the costs Höganäs may incur due to insufficient insurance cover. | Höganäs endeavours to maintain insurance cover that keeps risk at acceptable levels. As part of this process, Höganäs maintains updated valuations of its production facilities to ensure that accurate replacement costs are reported to its insurer. |
| **Reputation risks**<br>Höganäs' reputation may be damaged if safety, environmental responsibility and ethics were to come into question. | These risks are managed systematically by approved management systems and dealt with locally by the Group's functional support. Questions are also highlighted in ongoing work through training and influencing attitudes. |
| **Risk of losing key competence**<br>Prospects of attracting and retaining competent employees are important for being able to conduct operations with good profitability for the long term. | Competence and manager development is conducted within internal training programmes such as the Höganäs Business Academy, but also through employees participating in relevant external courses, research programs, etc. |
| **Legal risks**<br>Some of the legal disputes and administrative procedures that arise in operations constitute legal risks. This include risks arising with suppliers, customers and other external parties, but also matters such as environmental and health liability, insufficient application of legislation and intellectual property, which may be large sums.<br><br>**Intellectual property**<br>In a global and competitive business, there is a risk that new products and processes are plagiarised. | Legal risks are managed Group wide by Höganäs Corporate Legal jointly with external service providers. To limit undesired legal risks in contractual relationships, subsidiaries utilise established contract models, review procedures, policy documents on limited liability and processes for signing agreements. The understanding and application of applicable regulations is ensured through channels including internal training programmes. Apart from its Code of Conduct, Höganäs has taken measures including a Group policy on gifts and other benefits with the aim of combating corruption. A new anti-corruption program and a new Group policy is being prepared, which is due for presentation soon.<br>Intellectual property risks are managed by the Group's Research & Development function jointly with Höganäs Corporate Legal. Where relevant, Höganäs files patents on technical innovations and processes developed within the Group, and monitors compliance with its patent protection. |
| **Credit risk—commercial**<br>Commercial credit risk is the risk of one of the Group's customers becoming insolvent. Höganäs' credit risk for customers is limited by sales being in a large number of countries. | Accounts receivable in 2012 averaged MSEK 970. The single biggest customer represented 6% of accounts receivable.<br>Höganäs has credit insurance cover of MUSD 9 (9) intended to reduce credit risks from customers in the US. Höganäs also uses export letters of credit for sales to certain markets. The single largest credit exposure at the reporting date was MSEK 55 (52). To limit credit risk further, the Group's credit policy stipulates that all sales to new customers are preceded by credit checks. Bad debt was MSEK 1 (3).<br>Höganäs also utilises credit insurance to reduce the risk of bad debt from its US customers, and export letters of credit on sales on certain Asian markets. Höganäs always runs credit checks on new business sales. Receivables balances are also continuously monitored. |
| **Environmental risk** | Environmental impact is primarily in the form of emissions, noise and waste. Höganäs has a clear supplier code, as well as terms and conditions of business (examination of applications). For more information see the sustainability section. |

## EXOGENOUS RISKS

Höganäs' operations are affected by international economic progress, which impacts on the supply of raw materials and the market potential of the Group's products. High exposure to the car industry means the Group is especially sensitive to progress in this sector. These risks are hard to protect against in the short term. In a longer perspective, Höganäs achieves this by developing products with higher value-added and investments in future-oriented segments. A number of risks and an explanation of how they are managed follows.

| EXOGENOUS RISKS | MANAGEMENT AND EXPOSURE |
|---|---|
| **Business cycle**<br>Cyclical fluctuations affect the supply and demand of Höganäs' products. Cyclical fluctuations in various contexts can be fairly synchronised at times, while at others, there are significant differences. Höganäs' operations are divided fairly evenly between Europe, America and Asia, which makes the Company less sensitive to recessions in individual parts of the world. | Höganäs' operations are diversified across a large number of countries and markets. In this way, Höganäs' strategy is to create natural risk diversification. |
| **Competition**<br>Many of Höganäs' products are exposed to competition and several of its major competitors have continuously enhanced the quality of their products in recent years. The powder metallurgy industry also features over-capacity. | Through its strategy of being the technical, product and commercial leader in metal powder, Höganäs will retain and strengthen its positioning versus competitors. Höganäs judges that its share of the press powder market for components is some 35%. |
| **Customer risks**<br>Exposure to the car industry makes the Group especially sensitive to progress in the sector. These risks may be hard to protect against in the short term. | In a longer perspective, Höganäs endeavours to secure greater exposure to new market segments. Höganäs achieves this by developing products with higher value-added and focusing on future-oriented segments. Höganäs' total sales were MSEK 6,712. Its ten largest customers represented 35% of this amount. Customers in the car industry represent some 60%. |

# THE HÖGANÄS SHARE

**Höganäs was listed on the Stockholm Stock Exchange back in 1903, when it was called Höganäs Billesholm. After a buy-out in 1987, the class B share was re-listed on the Stockholm Stock Exchange in 1994 and now trades on NASDAQ OMX Stockholm's Mid Cap list. The share is a constituent of the Metals & Mining sub-index of the Materials sector.**

The closing price of Höganäs' class B share in 2012 was SEK 248.50 (212.50), equivalent to market capitalisation of class B shares of MSEK 8,478 (7,250). The share price increased by 17% in 2012, just above the stock market overall but clearly above the Mid Cap and sector index. The NASDAQ OMX Stockholm rose by 16% and the Mid Cap index rose by 10%, while the Materials sector index rose by 3%. The Höganäs class B share set a high in the year of SEK 265 on 2 May and a low of SEK 206 on 24 October.

## SHARE CAPITAL

Höganäs' share capital is SEK 175,494,660, divided between a total of 35,098,932 shares, of which 981,000 are class A shares and 34,117,932 class B shares. Both share classes have a quotient value of SEK 5.00 per share and have equal rights to participation in the Company's assets and earnings. Each class A share has ten votes and each class B share has one vote. Only the class B share is quoted on the stock market. A trading lot is one share.

## SHARE TURNOVER

Since the introduction of the EU MiFiD directive at the end of 2007, shares can be traded on marketplaces other than stock exchanges. Such marketplaces include Burgundy, Chi-X and Turquoise. The consequence of this directive is that trading in Swedish shares off NASDAQ OMX Stockholm has gradually increased.

The Höganäs share is listed on NASDAQ OMX Stockholm, and trading in Stockholm represented 91% of total turnover of the share in 2012. Trading on other marketplaces has decreased again after a few years of increases. In 2011 the Stockholm Stock Exchange represented 67%, and 85% in 2010. A total of 10.03 (26.16) million shares were traded, equivalent to a rate of turnover of 28.6% (77). The rate of turnover on the Stockholm Stock Exchange was 74% (96), while the rate of turnover for the Mid Cap list fell to 46% (52).

## HOLDINGS OF TREASURY SHARES

Höganäs' holdings of treasury shares were unchanged at 293,800 class B shares at year-end 2012, or 0.9% of the total number of class B shares.

## OWNERSHIP

At year-end 2012, Höganäs had 7,323 (7,271) shareholders. At year-end 2012, as at the previous year-end, the three largest shareholders in terms of capital were Lindéngruppen AB, AB Industrivärden and Didner & Gerge Fonder AB with a total of 54.9% of the votes and 43.6% of the capital.

The trend towards a growing share of foreign ownership continued in 2012, at year-end, 74.6% (76.2) of Höganäs AB's share capital is held by Swedish owners and 25.4% (23.8) by foreign owners. Swedish owners who increased their holdings in 2012 include Svolder AB, Handelsbanken fonder and Deutsche Bank. 41% of Swedish-held Höganäs shares are held by financial companies and just under 3% by social security funds.

Direct ownership by Swedish private investors makes up some 6% of ownership. The largest foreign ownership is in the UK and the US, with 10.2% (7.0) and 9.0% (9.1) of the capital respectively.

On 11 February 2013, Lindéngruppen AB and FAM made a cash offering to shareholders through jointly held company H Intressenter AB. More information in Note 36 on page 95.

## DIVIDEND

The Board of Directors' intention is to maintain annual dividend levels of some 30-50% of income after tax. Dividends should reflect Höganäs' profit levels, future prospects, cash flow and investment need and other relevant factors. Höganäs also endeavours to maintain even growth of dividends. For the financial year 2012, the Board of Directors is proposing a dividend of SEK 10 (10), or 50% of income after tax, equivalent to a dividend yield of 4.0%, calculated on the closing price for 2012. Since its initial public offering, Höganäs has had an average annual dividend yield of 3.1%.

## HISTORY OF THE SHARE

Höganäs was first listed on the Stockholm Stock Exchange back in 1903, when it was called Höganäs Billesholm. In 1987, Lindéngruppen AB acquired all the shares of the Company, resulting in a de-listing. The Höganäs share was re-listed on the then Stockholm Stock Exchange in April 1994 and now trades on the Mid Cap list of NASDAQ OMX Stockholm. Lindéngruppen AB remains the Company's largest shareholder.

## INVESTOR RELATIONS

Höganäs held a large number of meetings with representatives of financial institutions in Höganäs, Stockholm and London in 2012. Höganäs arranges regular conference calls and presentations, as well as conducting investor conferences when publishing its interim and year-end reports.

## LARGEST SHAREHOLDERS

| SHAREHOLDER | HOLDING AS OF 30 DEC. 2012 | % OF VOTES* | % OF CAPITAL |
|---|---|---|---|
| Lindéngruppen AB | 7,650,000 | 37.8 | 21.8 |
| AB Industrivärden | 4,408,046 | 10.1 | 12.6 |
| Didner & Gerge Fonder AB | 3,238,340 | 7.4 | 9.2 |
| Marathon Asset Management | 2,079,139 | 4.8 | 5.9 |
| Lannebo fonder | 1,645,000 | 3.8 | 4.7 |
| Handelsbanken fonder | 1,035,243 | 2.4 | 2.9 |
| AFA Försäkring | 993,590 | 2.3 | 2.8 |
| Swedbank Robur fonder | 992,759 | 2.3 | 2.8 |
| SEB Asset Management | 873,406 | 2.0 | 2.5 |
| Nordea Investment Funds | 493,098 | 1.1 | 1.4 |
| **Total, ten largest shareholders** | **23,408,621** | **74.0** | **66.6** |

* The 293,800 shares Höganäs re-purchased are not included in the stated vote percentages.

## TYPE OF SHAREHOLDER

- Swedish legal entities – 69%
- Owners resident overseas – 25%
- Swedish natural persons – 6%

## KEY INDICATORS, SHARE

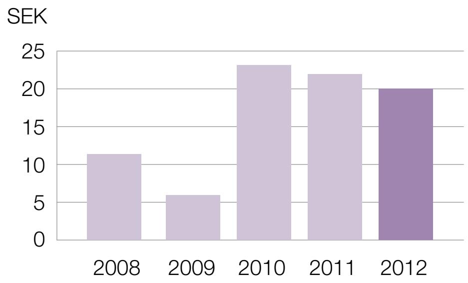
| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Earnings per share, SEK* | 11.31 | 5.92 | 23.11 | 21.90 | 20.04 |
| Cash flow after investments per share, SEK* | 6.30 | 18.00 | 11.80 | 9.51 | 19.68 |
| Equity per share, SEK* | 69.10 | 76.20 | 93.05 | 100.96 | 108.23 |
| Dividend per share, SEK** | 3.00 | 3.00 | 10.00 | 10.00 | 10.00 |
| Share price as of the reporting date, SEK* | 70.00 | 164.00 | 263.00 | 212.50 | 248.5 |
| Dividend yield, %*** | 4.3 | 1.8 | 3.8 | 4.7 | 4.0 |

* According to definitions on page 97
** According to the Board of Directors' proposal for 2012
*** Dividend as percentage of closing share price at year-end

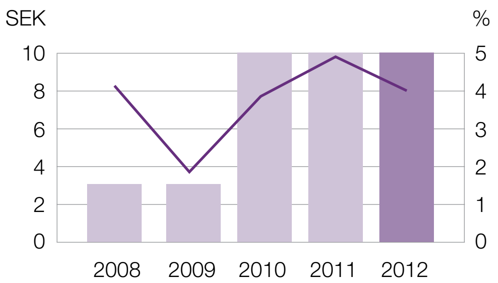
## FINANCIAL ANALYSTS MONITORING THE HÖGANÄS SHARE

| COMPANY | ANALYST |
|---|---|
| ABG Sundal Collier | Erik Pettersson |
| CA Chevreux | Björn Gustafsson |
| Carnegie Investment Bank AB | Agnieszka Vilela |
| Danske Bank | Carl Gustafsson |
| Erik Penser Bankaktiebolag | Johan Dahl |
| Handelsbanken Capital Markets | Jon Hyltner |
| Nordea | Andreas Koski |
| Pareto Öhman | David Jacobsson |
| SEB Enskilda | Anders Trapp |
| Swedbank | Ola Södermark |

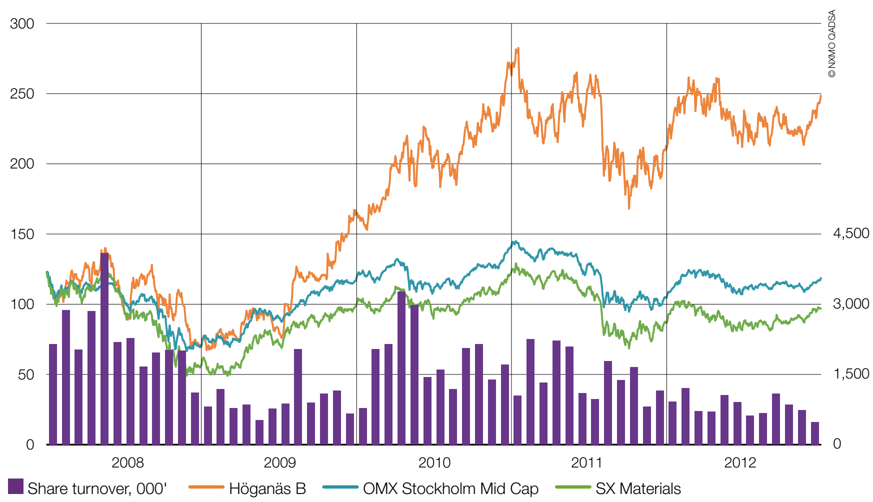
## EARNINGS PER SHARE




## DIVIDEND PER SHARE/DIVIDEND YIELD




## SHARE PRICE AND TURNOVER VS. INDEX



# CORPORATE GOVERNANCE REPORT

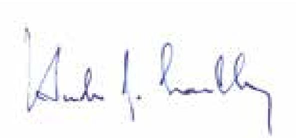
## Foreword by the Chairman of the Board:

This Corporate Governance Report states how Höganäs' governance is structured, the division of responsibility between owners, the Board of Directors and management, and the control functions in place. Demonstrating that good governance permeates the whole Company is necessary for the Board and management to gain the trust of the surrounding world, shareholders and the markets. To achieve this, openness and a well-functioning structure are necessary, which contributes to ensuring that in every respect, the Company's conduct is ethical and legally compliant. Höganäs always endeavours to achieve the highest quality and the greatest clarity in its management, governance and control, in its daily operations and in the work of its Board of Directors.

Development work and a review of the environmental situation at the Group's plants characterised the work of the Board in 2012. Apart from customer-specific projects, the Company also conducts its own initiatives designed to increase the usage of powder in different applications. Several of these appear very promising.

It is important for Höganäs to have a strong Balance Sheet, which confers great freedom to act. I would also like to emphasise the importance of a strong and competent management in Sweden and foreign countries.

It is important for us to observe and consider turbulent progress in our surroundings in recent years on a continuous basis. In the year, budget crises in several countries caused uncertainty and volatility on the world's stock exchanges, simultaneous with other economies continuing their growth. For Höganäs, it is essential to maintain a contingency, simultaneous with us continuing to work for ongoing value growth.



Anders G Carlberg
*Chairman of the Board*

# Corporate Governance Report 2012

**Höganäs is a Swedish registered public limited company listed on NASDAQ OMX Stockholm, which applies the Swedish Code of Corporate Governance ("the Code"). In accordance with the stipulations of the Swedish Annual Accounts Act and the Code, the Board of Directors hereby presents the Corporate Governance Report for 2012. This Report has been reviewed by the Company's Auditors, and the Auditors' statement is on page 35.**

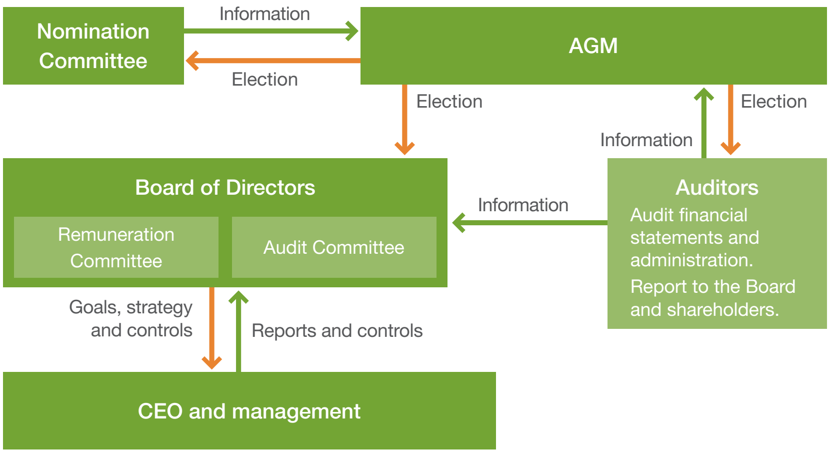
## HÖGANÄS' CORPORATE GOVERNANCE BODIES

Höganäs is a Swedish public limited company. The shareholders ultimately take decisions on the Company's governance by appointing the Group's Board of Directors, the Chairman of the Board and the Company's Auditors at the AGM. In turn, the Board of Directors is responsible for ongoing governance in the year and that this governance complies with laws and other external and internal governance instruments. The following model reviews how corporate governance is organised in Höganäs.

## COMPLIANCE WITH THE CODE

Höganäs complies with the Swedish Code of Corporate Governance (www.corporategovernanceboard.se) with one exception. Board member Jenny Lindén Urnes has been appointed Chairman of the Company's Nomination Committee. Because Lindéngruppen has been the long-term principal owner of Höganäs, it is judged as most expedient for the work of the Nomination Committee that the principal owner holds this position.

### HÖGANÄS' CORPORATE GOVERNANCE BODIES




**Internal governance instruments**

**Ethical Policy** – the Group's fundamental values on ethical issues

**Finance Policy** – Instructions adopted by the Board that formalise the finance function's frameworks for finance and currency risks, for example

**Communication Policy** – the Group's rules for external communication

**Insider Policy** – formalises insider issues with instructions for insiders

**Environmental Policy** – guidelines, limits and standards for the Group's environmental activities

**Risk Policy** – overall regulations for the Group's risk management initiatives

**External governance instruments**

The Swedish Companies Act, Annual Accounts Act, NASDAQ OMX Stockholm's rules for issuers, other relevant laws and the Swedish Code of Corporate Governance.

## SHAREHOLDERS

On 31 December 2012, Höganäs had 7,323 (7,271) shareholders. Lindéngruppen AB is and has been the Company's principal owner since the share was re-listed on the Stockholm Stock Exchange in 1994. Otherwise, ownership is dominated by Swedish institutions and equity funds. At year-end 2012, Swedish legal entities held 69% of the capital and 75.2% of the votes, while Swedish individual investors held 5.6% of the capital and 4.5% of the votes. Foreign ownership was 25.4% of the capital and 20.3% of the votes at year-end. Direct or indirect shareholdings of the Company, which represent at least one-tenth of the votes for all the shares of the Company, are as follows: Lindéngruppen with 21.8% of the share capital and 37.8% of the votes and Industrivärden with 12.6% of the share capital and 10.1% of the votes. For more information on the Höganäs share and ownership structure, see pages 24-25.

## ANNUAL GENERAL MEETING

Höganäs' AGM 2012 was held on 2 May in Höganäs, Sweden. All Board members with the exception of Bengt Kjell attended the Meeting. Of the Company's major shareholders, Lindéngruppen AB, AB Industrivärden, Alecta, Didner & Gerge Fonder, Swedbank Robur, SEB and SHB Fonder were represented at the Meeting. Höganäs conducts its AGM in Swedish. English-language documentation from the Meeting is available to order from the

Company's head office and from the Company's website. All documentation from the AGM is available at Höganäs' website, www.hoganas.com.

A number of the most important resolutions of the AGM 2012 are reviewed below:

ELECTION OF THE BOARD OF DIRECTORS AND CHAIRMAN OF THE BOARD

Board members Anders G Carlberg, Alrik Danielson, Jenny Lindén Urnes, Bengt Kjell, Peter Gossas, Urban Jansson, Björn Rosengren and Erik Urnes were re-elected. Anders G Carlberg was re-elected as Chairman of the Board.

BOARD AND AUDIT FEES

The AGM resolved in accordance with the Nomination Committee's proposal unchanged total fees of SEK 2,350,000 (2,350,000) to the Board of Directors, of which SEK 500,000 to the Chairman of the Board, SEK 250,000 to each of the other members that are not employed by the Group and SEK 350,000 for committee work.

The AGM also resolved that audit fees would be payable according to open account.

REMUNERATION TO MANAGEMENT

The AGM resolved to adopt the Board's proposed guidelines for remunerating management. The guidelines correspond to the guidelines applied in recent years. These guidelines are reproduced in full in the minutes of the meeting at www.hoganas.com.

DIVIDEND

The AGM approved the Board's and the Chief Executive Officer's proposal of a dividend of SEK 10.00 (10.00) per share for the financial year 2012.

TRANSFER OF SHARES FOR STAFF STOCK OPTION PLAN

The AGM approved the Board of Directors' proposal for the transfer of class B Höganäs shares with the intention of fulfilling and covering its commitments relating to the staff stock option plan of 2009.

APPOINTING THE NOMINATION COMMITTEE

The AGM approved the appointment of a Nomination Committee for the AGM 2013, implying that the Nomination Committee should consist of representatives of the four largest shareholders in terms of votes as of 31 August 2012, and the Chairman of the Board.

## NOMINATION COMMITTEE

The composition of the Nomination Committee for the AGM 2013 is in the table on page 32.

WORK OF THE NOMINATION COMMITTEE

For the forthcoming AGM, the Nomination Committee's duty is to prepare and submit proposals for electing the Chairman of the Meeting, election of the Chairman of the Board and other Board members, Directors' fees and remuneration to Auditors and Deputy Auditors (where applicable), and otherwise performing those duties incumbent on a Nomination Committee in accordance with the Code.

The Nomination Committee held three meetings in the period until publication of the proposals in February 2013. The Nomination Committee appraises the work of the Board of Directors and its composition annually. This appraisal was conducted against the background of the Board of Directors having a suitable composition in terms of skills, experience and background considering Höganäs' operations, and in accordance with the other criteria stated in the Code. The annual appraisal of the Board is the basis of the Nomination Committee's proposals to the AGM.

## WORK OF THE BOARD

CHAIRMAN'S RESPONSIBILITIES

The Chairman of the Board organises, evaluates and leads Board work so it is conducted in accordance with the Swedish Companies Act, other laws and ordinances, applicable rules for listed companies (including the Code) and the Board of Directors' internal governance instruments. The Chairman monitors operations in dialogue with the CEO and is responsible for other Board members receiving the information that is necessary to perform the Board of Directors' duties. The Chairman participates on appraisal and development issues regarding the Group's senior managers and represents the Company on ownership issues.

BOARD OF DIRECTORS' RESPONSIBILITIES

Each year, the Board adopts written rules of procedure that formalise the work of the Board and its internal division of responsibilities including Committee work, decision-making processes within the Board, procedures for Board meetings and the Chairman's duties. The Board also issues instructions for the Chief Executive Officer and instructions for financial reporting to the Board of Directors. The Board also adopted several other policies for the Group's operations.

The Board supervises the Chief Executive Officer's work through the continuous monitoring of operations in the year. The Board is responsible for organisational resources, management and guidelines for administering the Company's affairs being expediently structured, and that internal governance is satisfactory.

The Board is also responsible for developing and monitoring the Company's strategies through plans and objectives, decisions on acquisitions and divestments of operations, major investments and additions to, and replacements in, the Group Management. The Board presents the annual financial statement to the AGM.

WORK OF THE BOARD IN 2012

The current rules of procedure stipulate that the Board should meet on at least four scheduled occasions and one meeting following election each year. Moreover, separate meetings, chiefly by telephone in tandem with the issuance of quarterly reports, and additionally when the situation requires. Scheduled meetings take place in February, April, August/September and November/December.

The Company's Chief Financial Officer and the Company's General Counsel, and the Board Secretary also attend Board meetings. Other employees of the Company attend Board meetings to report on special issues, and when considered appropriate. The Chief Executive Officer ensures that the invitation to the Meeting, with an agenda and written information for meetings, is sent to each Board member a week before each Board meeting if possible. Nine Board meetings were held in 2012.

Regular business at each meeting includes a review of profit performance, financial position, reports from committees and investment decisions. Other matters considered are allocated over the year as follows:

- February: Year-end Report, Audit Report, annual financial statement, draft Annual Report and Corporate Governance Report and proposed appropriation of profit and other matters ahead for the AGM.
- April: Investment update and market progress.
- August/September: strategy issues.
- November/December: earnings target for the coming year and capital structure, Audit Report and appraisal of the Chief Executive Officer's work, appraisal of the Board's work and appraisal of compliance with the Code and evaluation of the need for internal audit.

In 2012, the work of the Board focused on following up development projects and investments. A review of the environmental status of the Group's production facilities was also conducted.

APPRAISAL OF THE WORK OF THE BOARD

The Chairman is responsible for the Board continuously deepening its knowledge of the Company and for appraising the work of the Board. After consulting with the Nomination Committee, the Chairman of the Board conducts a questionnaire-based appraisal of the work of the Board of Directors with Board members. The Chairman also conducts an oral discussion of the work of the Board with all Board members. The Chairman then reports the results of the appraisal to the Board of Directors and the Nomination Committee.

BOARD COMMITTEES

The Board appoints members of Audit and Remuneration Committees internally at the Board meeting following election, held immediately after the AGM. The procedure for Committees is arranged so that each Committee Chairman is responsible for convening and agendas for Committee meetings. Minutes are taken at each meeting. After each meeting, the Committee reports to the Board regarding its work. All Board members and deputies receive copies of the minutes of Committee meetings.

AUDIT COMMITTEE

*Composition*

Each year, the Board appoints an internal Audit Committee at the Board meeting following election after the AGM. The Board's rules of procedure stipulate that this Committee will consist of at least three Board members. In 2012, the Committee consisted of Chairman of the Board Anders G Carlberg, Bengt Kjell, appointed as Chairman of the Committee, and Erik Urnes.

Höganäs' Chief Executive Officer, Chief Financial Officer, Group Accounting Manager and external Auditors attend Committee meetings. SEK 100,000 of fees were paid to the Chairman of the Committee, and SEK 50,000 each to the other members of the Committee.

*Duties*

The Committee's work is formalised through dedicated instructions adopted by the Board as part of its rules of procedure. The Committee's duties include:

- Ongoing discussion of the effectiveness of the Company's reporting and financial controls with external Auditors and the Corporate Management, and considering potential recommendations to improve internal controls over financial reporting.
- Ongoing discussion of the Company's current risk outlook, risk exposure and measures taken or planned by the Corporate Management to limit, monitor or control such risks with the Corporate Management and external Auditors.
- Participate in planning the audit process, monitoring the external audit and quality-assuring the Company's financial communications.
- Participate in the adoption of policies regarding financial matters.
- Consult on matters regarding tendering for Auditors and remuneration to Auditors for the Board of Directors.
- Monitor and appraise the work of the Auditors.
- State guidelines and participate in decisions regarding tendering on non audit related consulting services from external Auditors.

*Authorisation to make decisions*

No authorisation to make decisions on any individual issue has been delegated to the Audit Committee.

*Work in the year*

Committee work in the year was conducted in accordance with the instructions the Board adopted for Committee work. The Committee met on three occasions in 2012, where Anders G Carlberg and Erik Urnes attended on all occasions and Bengt Kjell on two occasions. At all meetings, the Committee held reviews with, and received reports from, the Company's external Auditors.

REMUNERATION COMMITTEE

*Composition*

Each year, the Board appoints an internal Remuneration Committee at the Board meeting following election after the AGM. The rules of procedure of the Board stipulate that the Chairman of the Committee must be the same person as the Chairman of the Board. In 2012, the Committee consisted of Chairman of the Board Anders G Carlberg, and members Jenny Lindén Urnes and Bengt Kjell.

In addition, if it considers this appropriate, the Committee can co-opt another representative of the Corporate Management or other suitable person to attend meetings. However, such individuals do not participate in matters relating to their own remuneration. Remuneration of SEK 50,000 each is paid to the Committee's three members.

*Duties*

The Committee's work is formalised through dedicated instructions adopted by the Board as a part of its rules of procedure. The Committee considers and consults on remuneration principles and remuneration matters affecting the Group Management, share-based incentive schemes and general profit-related bonus programme. The Committee also monitors and evaluates performance-related pay for the Group Management, the application of remuneration principles and applicable remuneration structures and remuneration levels.

The Board also assigns the Committee to take responsibility for submitting proposals for remuneration principles and other employment terms for the Corporate Management for approval by the AGM.

*Authorisation to make decisions*

No authorisation to make decisions on any individual issue has been delegated to the Remuneration Committee.

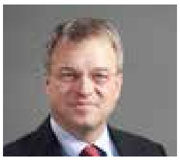
*Work in the year*

The Remuneration Committee held two meetings in 2012, where Anders G Carlberg and Jenny Lindén Urnes attended on all occasions and Bengt Kjell on one occasion. Committee work in the year was conducted in accordance with the instructions the Board adopted for Committee work.

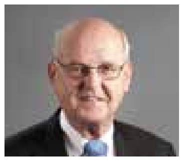
## CHIEF EXECUTIVE OFFICER'S RESPONSIBILITIES

The Chief Executive Officer leads operations in accordance with the Swedish Companies Act, and within the framework decided by the Board of Directors. In consultation with the Chairman of the Board, the Chief Executive Officer prepares the necessary information and decision-support data ahead of Board meetings, presents issues and explains proposed decisions. The Chief Executive Officer also keeps the Board informed of progress of the Company's results of operations and operations on an ongoing basis between Board meetings. The CEO submits monthly reports to the Board of Directors. The Chief Executive Officer leads the Group Management's work and reaches decisions in consultation with other members of management. The Group Management conducts regular operational reviews led by the Chief Executive Officer.

# BOARD OF DIRECTORS

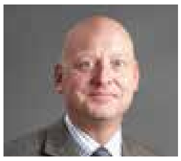







| Name | Jenny Lindén Urnes | Alrik Danielson | Björn Rosengren | Anders G Carlberg | Bengt Kjell | Urban Jansson |
|---|---|---|---|---|---|---|
| Elected in | 2004 | 2005 | 2011 | 2009 | 2006 | 2007 |
| Position | Board member and member of the Remuneration Committee | CEO and President of Höganäs AB | Board member | Chairman of Höganäs AB, Chairman of the Remuneration Committee and member of the Audit Committee | Board member and Chairman of the Audit Committee and member of the Remuneration Committee | Board member |
| Born | 1971 | 1962 | 1959 | 1943 | 1954 | 1945 |
| Nationality | Swedish | Swedish | Swedish | Swedish | Swedish | Swedish |
| Educational qualifications | B.A. (Phil.) | B.Sc. (Econ.) | B.Sc. (Eng.) | B.Sc. (Econ.) | B.Sc. (Econ.) | Certified banking economist |
| Other assignments | Chairman of Lindéngruppen AB and Stiftelsen Färgfabriken. Board member of Becker Industrial Coatings Holding AB, ColArt International Holdings Ltd and Moorbrook Textiles Ltd. | Board member of EFG European Furniture Group and the Chamber of Commerce and Industry of Southern Sweden. | CEO of Wärtsilä Corporation. Board member of HTC AB and Danfoss A/S. | Board member of Axel Johnson Inc., Sapa AB, Mekonomen AB, Svenskt Stål AB (SSAB), Investment AB Latour, Beijer Alma AB, Sweco AB and others. | CEO of AB Handel och Industri, Chairman of Indutrade AB and Hemfosa AB. Board member of Pandox AB, Swegon AB, Helsingborgs Dagblad and others. | Chairman of EAB, HMS Networks and Svedbergs. Board member of Clas Ohlson AB, Lindéngruppen AB and SEB. |
| Background | CEO of Lindéngruppen AB. CEO and President of AB Wilh. Becker. | CEO of SKF do Brazil and Vice President of AB SKF's Industrial Division. | Executive Vice President and Business Area Manager of Civil Engineering and Mining Technology for Atlas Copco. Divisional Manager of Atlas Copco Rock Drilling Equipment. Divisional Manager of Atlas Copco Craelius. GM Nordhydraulic, Nordwin AB. | CEO of Axel Johnson Int. AB, Nobel Industries Sweden AB, J S Saba AB, Vice CEO Svenskt Stål AB (SSAB). | VP Industrivärden (Head of Investment). Head of Corporate Finance, Securum and Senior Partner of Navet AB | CEO of Ratos AB and senior positions within SEB and Incentive Group. |
| Remuneration* | | | | | | |
| Owner and related parties' shareholdings | 20,000 privately and 7,650,000 via company | 27,800 | 0 | 5,000 | 0 | 5,000 |
| Attendance at Board meetings | 9/9 | 9/9 | 9/9 | 9/9 | 7/9 | 9/9 |
| Attendance at Remuneration Committee meetings | 2/2 | – | – | 2/2 | 1/2 | – |
| Attendance at Audit Committee meetings | – | 2/2 | – | 2/2 | 1/2 | – |
| Affiliation/ non-affiliation** | Affiliated to major shareholders | Affiliated to the Company and management | Non-affiliated | Non-affiliated | Non-affiliated | Affiliated to major shareholders |






| | | | | | | |
|---|---|---|---|---|---|---|
| Name | Peter Gossas | Erik Urnes | Karl-Henry Boo | Tony Petersson | Gary Paulsson | Ola Litström |
| Elected in | 2008 | 2009 | 1993 | 2006 | 2006 | 2008 |
| Position | Board member | Board member and member of the Audit Committee | Union representative on the Board of Directors | Union representative on the Board of Directors | Union representative on the Board of Directors | Union representative on the Board of Directors |
| Born | 1949 | 1971 | 1959 | 1966 | 1965 | 1969 |
| Nationality | Swedish | Norwegian | Swedish | Swedish | Swedish | Swedish |
| Educational qualifications | B.Sc. (Eng.) | B. Eng. (Mechanical Engineering), MBA | Senior high school, engineering | | | BSc. (Eng.) civil engineering, materials technology |
| Other assignments | Industrial Advisor | CEO of Lindéngruppen AB. Chairman of Becker Industrial Coatings Holding AB, and ColArt International Holdings Ltd. Board member of Lindéngruppen AB. | Representative of the Unionen trade union at Höganäs AB | Chairman of IF Metall at Höganäs AB | Member of IF Metall at Höganäs AB | Member of Akademiker-föreningen at Höganäs AB |
| Background | CEO of Sandvik's Materials Technology business area in 2002– 2011. Chairman of Sandvik India and Sandvik South East Asia. Chairman of the Board of Swedish Steel & Metals Employers' Confederation. Various Divisional Manager positions in Avesta/Avesta Sheffield/ Avesta Polarit/ Outokumpu. Various positions with SSAB. | Strategy Consultant, Bain & Company, Investment Manager, Browallia Ltd. and Reuters Greenhouse Fund, CEO of ColArt International Holdings, CEO of AB Wilh. Becker. | | | | Former application engineer at Lign Multiwood AB |
| Remuneration* | | | | | | |
| Owner and related parties' shareholdings | 0 | Related parties own 20,000 shares privately and 7,650,000 shares through company | 0 | 0 | 0 | 0 |
| Attendance at Board meetings | 8/9 | 9/9 | 9/9 | 8/9 | 9/9 | 7/9 |
| Attendance at Remuneration Committee meetings | – | – | – | – | – | – |
| Attendance at Audit Committee meetings | – | 2/2 | – | – | – | – |
| Affiliation/ non-affiliation** | Non-affiliated | Affiliated to major shareholder | | | | |

* The AGM 2012 resolved remuneration to the Board of Directors totalling SEK 2,350,000, with the Chairman of the Board receiving SEK 500,000 and other members elected by the AGM, but not employed by the Group receiving SEK 250,000 each. The remaining SEK 350,000 would be payable as fees for committee work, at SEK 50,000 each to three external members of the Company's Remuneration Committee and SEK 100,000 to the Chairman of the Audit Committee, and SEK 50,000 each to two external members of the Audit Committee. More information on remuneration to the Board of Directors on page 85 of the Annual Report, Note 25.

** The judgment on the Board's affiliation/non-affiliation has been conducted in accordance with the Code's criteria for non-affiliation.

## GUIDELINES FOR REMUNERATION AND OTHER EMPLOYMENT TERMS FOR CORPORATE MANAGEMENT

The AGM 2012 approved the Board's proposed guidelines for remuneration and other employment terms for Corporate Management. The guidelines were unchanged from those approved by the AGM 2011. The guidelines stipulate items including remuneration consisting of a basic and a performance-related component, and that the performance-related component will not exceed the basic component, and normally not exceed six months' salary. In accordance with an AGM resolution, the Board of Directors is entitled to depart from these principles in individual cases in special circumstances. The complete guidelines are included in the AGM documentation on Höganäs' website, www.hoganas.com.

Complete information on management remuneration is stated in the following table.

## AUDITORS

ELECTED AUDITOR

A new term of office for Auditors of one year, against the previous four years, applies from 2010 onwards. The AGM 2012 elected KPMG AB as Auditor until the AGM 2013. Helene Willberg was registered as Auditor-in-Charge at the Meeting.

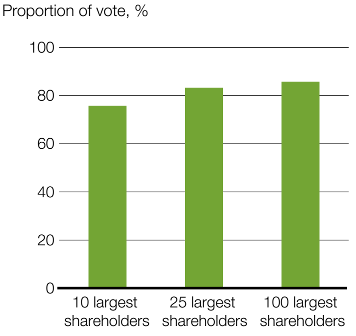
AUDITORS' WORK

The Auditors follow an audit plan, incorporating views from the Board of Directors. The Auditors report their observations to the Board, partly during the audit process, and finally, coincident with adopting the Annual Report. The Auditors attend all Audit Committee meetings in the year and report their observations, as well as participating in one Board meeting each year that Group Management does not attend. The Auditors attend the AGM and make a report, stating an opinion on the audit process.

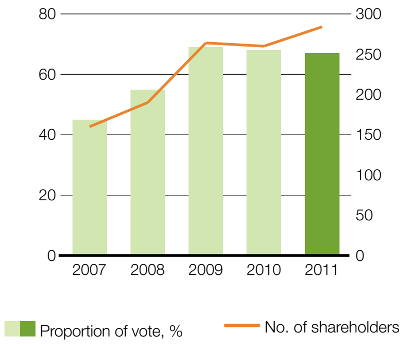
In 2012, the Auditors had consulting assignments relating to Group audit matters and tax advice.

HELENE WILLBERG
Senior Auditor
Born: 1967
Höganäs' Auditor since: 2011
Authorised Public Accountant since: 1997
Other public companies: Investor AB, Nobia AB and Cloetta AB.
Other: Partner of KPMG since 2001, CEO of KPMG in 2008 - 2012.

## OWNERSHIP CONCENTRATION




## ATTENDANCE AT AGMs




## COMPOSITION OF THE NOMINATION COMMITTEE

| NAME | REPRESENTING | POSITION | PARTICIPATING INTEREST (VOTES) OF HÖGANÄS, %[1] |
|---|---|---|---|
| Jenny Lindén Urnes | Lindéngruppen AB | Chairman, Lindéngruppen | 37.8 |
| Henrik Didner | Didner & Gerge Fonder AB | Fund Manager, Chairman of Didner & Gerge Fonder AB | 7.4 |
| Birger Gezelius | Swedbank Robur Fonder | Shareholders' representative | 2.3 |
| Anders G Carlberg | | Chairman of the Board of Höganäs | 0.0 |
| **Total** | | | **47.5** |

[1] At the time of the Nomination Committee's appointment.
The composition of the Nomination Committee was reported in Höganäs' Nine-month Interim Report, which was published on 24 October 2012.
Jenny Lindén Urnes is Chairman of the Nomination Committee. The Nomination Committee held three meetings after the AGM 2012.

## REMUNERATION TO SENIOR MANAGERS IN 2012 (MSEK)

| | BASIC SALARY | PERFORMANCE-RELATED PAY | OTHER REMUNERATION/ BENEFITS | PENSION COST | SHARE-BASED PAYMENT | TOTAL |
|---|---|---|---|---|---|---|
| CEO | 6.6 | 1.9 | 0.2 | 2.0 | 1.8 | 12.5 |
| SVP | 1.8 | - | 4.8 | 0.5 | 0.6 | 7.7 |
| Other management | 20.2 | 4.4 | 2.5 | 3.7 | 3.7 | 34.5 |
| **Total** | **28.6** | **6.3** | **7.5** | **6.2** | **6.1** | **54.7** |

## REMUNERATION TO AUDITORS (MSEK)

| YEAR | AUDITING | OTHER | TOTAL |
|---|---|---|---|
| 2012 | 5.0 | 0.9 | 5.9 |
| 2011 | 4.9 | 1.3 | 6.2 |
| 2010 | 5.2 | 1.2 | 6.4 |

# MANAGEMENT

**Alrik Danielson**
CEO and President
Employed since: 2005
Born: 1962
Educational qualifications: B.Sc. (Econ.)
Previous positions: CEO of SKF do Brazil and Manager of AB SKF's Industrial Division
Other assignments: Board member of EFG European Furniture Group AB and the Chamber of Commerce and Industry of Southern Sweden.
Höganäs shareholdings: 27,800
Option holdings: 12,500

**Fredrik Emilson**
Vice President, Asia region
CEO of Höganäs (China) Co. Ltd.
CEO of Höganäs Taiwan Ltd.
CEO of Höganäs Korea Ltd.
Employed since: 2010
Born: 1969
Educational qualifications: B.Sc. (Econ.)
Previous positions: CEO of Pergo Europe, CEO of Trelleborg Waterproofing
Höganäs shareholdings: 0
Option holdings: 0

**Per Engdahl**
Vice President, Europe region
Employed since: 1985
Born: 1958
Educational qualifications: M.Sc. (Met.)
Previous positions: Director of Sales and Business Development of Höganäs AB, positions in SSAB
Höganäs shareholdings: 3,000
Option holdings: 4,500

**Claudinei Reche**
Vice President, South America region
President of Höganäs Brasil Ltda
Employed since: 2005
Born: 1967
Educational qualifications: B.Sc. (Econ)
Previous positions: Sales Manager Daimler Chrysler and Sales Director at SKF
Höganäs shareholdings: 0
Option holdings: 4,500

**Avinash Gore**
Vice President, North America region
President, North American Höganäs, Inc.
Employed since: 2002
Born: 1954
Educational qualifications: B.Sc. (Eng.), M.B.A.
Previous positions: Alfa Laval AB in India, Africa, Australia and Denmark
Höganäs shareholdings: 0
Option holdings: 9,000

**Anders Andersson**
Vice President, HR
Employed since: 1977
Born: 1951
Educational qualifications: B.Sc.
Previous positions: public sector
Höganäs shareholdings: 0
Option holdings: 4,500

**Sven Lindskog**
Chief Financial Officer
Employed since: 2007
Born: 1963
Educational qualifications: B.Sc. (Econ.)
Previous positions: CFO Sardus AB, Finance Director of Unilever Nordic and various positions in the Unilever Group.
Höganäs shareholdings: 1,000
Option holdings: 4,500

**Hans Söderhjelm**
Vice President, Marketing & Product Development
Employed since: 1984
Born: 1955
Educational qualifications: M.Sc. (Met.)
Previous positions: Research Assistant, RIT
Höganäs shareholdings: 10,100
Option holdings: 4,500

**Carl Eklund**
President, Höganäs Japan KK
Employed since: 2004
Born: 1953
Educational qualifications: B.Sc. (Eng.)
Previous positions: CEO of Volvo Nippon KK
Höganäs shareholdings: 2,000
Option holdings: 3,000

**Ulf Holmqvist**
Senior Vice President
Employed since: 1988
Born: 1954
Educational qualifications: B.Sc. (Eng.)
Previous positions: positions in ABB Robotics
Höganäs shareholdings: 7,500
Option holdings: 0

**Srini V Srinivasan**
Vice President, India region
CEO of Höganäs India Pvt Ltd.
Employed since: 2008
Born: 1955
Educational qualifications: B. Tech (Metallurgy), M.B.A.
Previous positions: President of GKN Sinter Metals Ltd., India
Höganäs shareholdings: 0
Option holdings: 4,500

## BOARD OF DIRECTORS' REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board of Directors' responsibility for internal control is regulated by the Swedish Companies Act and the Swedish Code of Corporate Governance. Internal control relating to reporting is included as an element of Höganäs' total internal control and is central to Höganäs corporate governance. In 2005, Höganäs decided to introduce the COSO framework for internal control over financial reporting. The framework was launched in 1992 by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). A review of the most important aspects of Höganäs' systems for internal control and risk management relating to financial reporting follows.

### CONTROL ENVIRONMENT

Effective work of the Board is the basis of good internal control and risk management. Höganäs' Board of Directors has created clear working processes and procedures for its work and the Board's Committees. Deciding a framework of internal governance to be applied in the Group and to formulate and approve a number of fundamental policies, guidelines and frameworks related to financial reporting is an important part of the work of the Board. These frameworks include a Code of Conduct, Risk Policy, reporting systems and Finance Policy.

The Board evaluates the performance of operations and results of operations on an ongoing basis through an expedient package of reports including operational and profit outcomes, financial position, cash flow, rolling forecasts, analysis of key indicators and significant operational and financial information.

### RISK MANAGEMENT

The Board of Directors has decided that the Company will conduct a risk assessment of financial reporting on a yearly basis. Income Statement and Balance Sheet items subject to an increased risk of significant misstatement are identified in this risk assessment. In the Company's operations, these risks mainly lie in fixed assets, financial instruments, inventories, accounts receivable, provisions, accrued expenses, tax and revenue recognition.

Risk management is dependent on a series of points such as effects on financial reporting, business processes, external factors and the risk of fraud. The result of the risk analysis is a series of activities aimed at identifying control measures and issuing the necessary instructions and controls.

### CONTROLLING

The Company's control documents for financial reporting are mainly policies and guidelines that are continuously updated and communicated through the appropriate channels. In accordance with the rules of procedure for the Audit Committee, a review of the results of the risk assessment and the control measures taken is conducted yearly. The Chairman of the Audit Committee reports on the main principles in the assessment, and activities, to the rest of the Board of Directors. There is a clear policy stating the guidelines for how communication with external parties should be conducted. The purpose of the policy is to ensure that all communication responsibilities are fulfilled accurately and comprehensively. All staff are provided with this policy when taking up employment.

### CONTROL AND MONITORING ACTIVITIES

Control structures are designed to manage the risks the Board considers significant for the internal controls over financial reporting. The control structure mainly consists of organisational resources with clear roles enabling effective, and from an internal control perspective, appropriate division of responsibilities, and of specific control activities intended to discover the risk of misstatements in reporting, or to prevent them in time. Based on the yearly risk assessment, control measures are analysed in each unit, with measures taken to reduce the risks in financial reporting.

### MONITORING

Monitoring the effective structure and implementation of internal governance is conducted through a combination of self-assessment, independent testing and verification by external parties. The independent tests are conducted with the aid of external consultants and the Company's Auditors to ensure the high-quality and effective design of controls. The results of the assessment are reported continuously to the Corporate Management and Audit Committee. Subsequently, the Audit Committee ensures that appropriate measures are taken in those cases where improvements are necessary. After consideration by the Audit Committee, the Board of Directors receives and evaluates the routines for auditing and financial reporting, and updates and evaluates external Auditors' work, qualifications and independence.

### INTERNAL AUDIT

Höganäs has chosen not to establish a dedicated internal audit function. The opinion of the Board, which considers the need for a dedicated internal audit function annually, is that the extra cost of a dedicated internal audit function could not be considered reasonable in relation to the Group's size. Moreover, the Board considers that the Group accounting function, which is responsible for updating and monitoring internal audit matters, is a satisfactory alternative. The Group accounting function reports its observations and actions taken on internal governance directly to the Audit Committee.

### HÖGANÄS' INTERNAL CONTROL PROCESS

Höganäs has defined internal controls as a process that is affected by the Board of Directors, Audit Committee, CEO, Group Management and other employees, which has been designed to provide reasonable assurance that Höganäs will achieve its targets regarding; expedient and effective operations, reliable reporting and compliance with applicable laws and ordinances.

Internal control processes based on a controlled environment create discipline and provide a structure for the other four components of the process—risk assessment, control structures, information and communication, as well as monitoring.

**Risk assessment** takes place within the auspices of Höganäs' risk assessment process.

**The control environment** are the values and the ethics that the Board of Directors, Audit Committee, CEO and Group Management communicate and work from, as well as the Group's organizational structure, leadership, decision paths, authorizations, responsibility and the competence that its employees possess.

**The control structure** is a matter of the controls selected to manage the Group's risks.

**Information and communication:** external information and internal information consists of reporting to regulators and external financial reporting to owners and other stakeholders, for example. Internal information and communication is a matter of creating awareness of Höganäs' employees regarding external and internal control instruments, including authorizations and responsibilities.

**Monitoring** should ensure the efficiency of the process through a variety of activities, such as following up on the operation against predetermined targets, self-assessment, internal audits and other follow-ups.

Höganäs, Sweden, 1 March 2013

Anders G Carlberg
*Chairman*

| | | |
|---|---|---|
| Peter Gossas<br>*Board member* | Urban Jansson<br>*Board member* | Bengt Kjell<br>*Board member* |
| Jenny Lindén Urnes<br>*Board member* | Björn Rosengren<br>*Board member* | Erik Urnes<br>*Board member* |
| Karl-Henry Boo<br>*Union Representative* | Alrik Danielson<br>*Chief Executive Officer* | Tony Petersson<br>*Union Representative* |

## AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

*To the Annual Meeting of Shareholders of Höganäs AB (publ), corporate identity number 556005-0121*

The responsibility for the preparation of the Corporate Governance Report for 2012 on pages 27-35 and its preparation in accordance with the Swedish Annual Accounts Act rests with the Board of Directors and Chief Executive Officer.

As a basis for our statement on the Corporate Governance Report being prepared and consistent with the Swedish Annual Accounts Act and the consolidated accounts, we have read the Corporate Governance Report and judged its statutory content based on our knowledge of the Company.

We believe that a Corporate Governance Report has been prepared, and that its statutory information is consistent with the Swedish Annual Accounts Act and the consolidated accounts.

Höganäs, Sweden, 15 March 2013
KPMG AB

Helene Willberg
*Authorised Public Accountant*

# DIRECTORS' REPORT

The Board of Directors and Chief Executive Officer of Höganäs AB (publ), corporate identity number 556005-0121, with registered office in Höganäs, Sweden, hereby present the annual accounts for the financial year 2012.

The results of operations in the year and the Parent Company's and Group's financial position are stated in the Directors' Report, the following Income Statement, Statement of Comprehensive Income and Statement of Financial Position, and the Parent Company's Income Statement, Statement of Comprehensive Income and Balance Sheet, the Notes and comments.

### Operations—general

Höganäs AB is the world's leading producer of iron and metal powder. Höganäs operates in 75 countries and has approximately 2,650 customers around the world. Based on a 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 accumulated in-depth application competence.

Thus, in partnership with its customers, Höganäs helps create, as examples, the car components, white goods and water and exhaust treatment products of the future. As a step towards an increasing market focus, Höganäs has opted to monitor and report on operations from a market perspective. The part of the metal powder market that Höganäs is active on can be divided into two main areas of application: Components and Consumables.

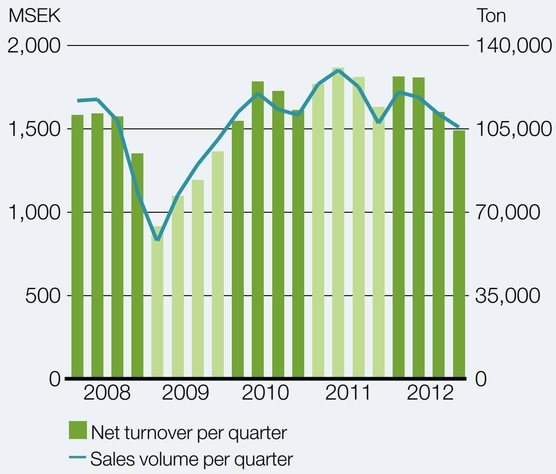
Components consists of all the iron and metal powders refined into components. Components currently consists mainly of the market segment of pressed components. Development work is conducted in soft magnetic and injection moulded components. Soft magnetic components focuses on supporting the development of inductors and electric drive systems. Injection moulded components is the development of MIM technology—small, metal injection moulded components with complex geometries for usage in segments including the automotive industry, IT, mobile telephony, medical devices etc. The market value of pressed and sintered components is some SEK 15 billion, with an estimated yearly growth rate of 4-6%. Customers are component manufacturers, who in turn, deliver components via product or system manufacturers or directly to OEMs. Components represents some three-quarters of consolidated turnover.

Consumables consists of the sale of iron powders and high-alloy metal powders used in industrial processes such as surface coating, welding and brazing. Metal powder is also used in a series of other segments such as the chemical and metallurgical process industries for the purification of exhaust, soil and water, and as additives in food and animal feed. Development work is conducted in surface coating, brazing, filters and water treatment. Applications in development include surface coating of components for the agriculture, marine/offshore and glass industries, and brazing of heat exchangers and catalytic converters. The market is fragmented with customers representing different sectors, which means that there is no overall market data. Iron and metal powders are often included as consumables in various processes, and accordingly, Consumables generally features shorter and less regular order intake over time. This also means that a high sales share is volume based. Sales are mainly to OEMs active in a number of different industries and sectors. Examples include brazing, surface coating, welding and the food and pharmaceutical industries. Consumables represents about a quarter of consolidated turnover.

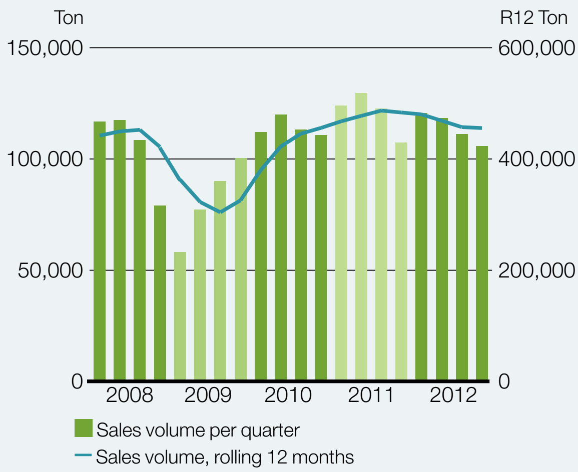
### Progress of the Group's operating activities, results of operations and financial position

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 implemented 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.

**Net turnover and sales volumes**




**Sales volume and rolling 12 months**

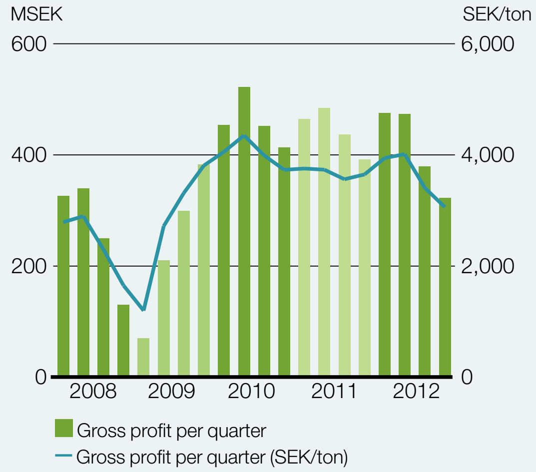


Sales volumes in Europe made a noticeable recovery in the first quarter after a poor fourth quarter 2011. But subsequently, sales deteriorated noticeably with each quarter. Sales in Asia featured a general recovery after the tsunami and floods in 2011, with only the Indian market being clearly weak. 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, had a noticeable positive effect in the second half-year.

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 corresponding period 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. Expenses for staff reductions were MSEK 44, of which MSEK 21 was charged to gross profit.

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.

**Gross profit**

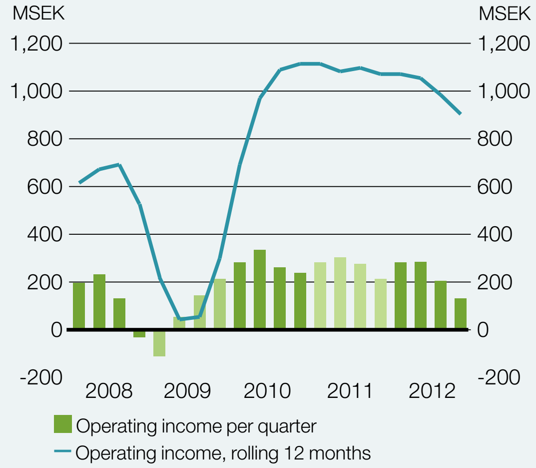



The Swedish krona appreciated overall against other currencies in a year of high volatility. Earnings from currency forward contracts intended to hedge balance sheet positions in foreign currencies were MSEK 21 (-7), but were offset by negative currency differences on valuation at closing day rates. 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 MSEK 21 of expenses for staff reductions being charged to income in the fourth quarter and expenses related to the 2007-2009 staff stock option plan. 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.

**Operating income**




Return on capital employed 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.

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.

The Group's net indebtedness 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.

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. The revaluation effect of short credits in foreign currency negatively affected net financial income and expense by MSEK 5 (20).

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. The new credit facility has covenants, as reported in Note 23.

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 high preliminary tax payment made in the first quarter 2011 due to the sharp increase in profit in 2010.

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

Financing activities affected cash flow by MSEK -615 (-353). Utilisation of committed 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 paid.

## Ownership structure

Lindéngruppen AB, with 21.8% of the share capital and 37.8% of the vote, was the principal shareholder at the end of the year. Lindéngruppen AB is represented on the Board by Jenny Lindén Urnes, Erik Urnes and Urban Jansson.

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 Höganäs' shareholders to transfer all the shares of Höganäs AB (publ) to H Intressenter AB. The scheduled acceptance period for this offer is from 15 March 2013 to 24 May 2013, both dates inclusive.

## The Höganäs share

The Höganäs share is quoted on NASDAQ OMX Stockholm on the list of Mid Cap companies. The share is a constituent of the Metals & Mining sub-index in the Materials sector.

Höganäs' share capital is SEK 175,494,660, divided between a total of 35,098,932 shares, of which 981,000 are class A shares and 34,117,932 are class B shares. Both share classes have a quotient value of SEK 5.00 per share and equal entitlement to participation in the Company's capital and earnings. Each class A share confers ten votes and each class B share one vote. Only the class B share is listed on the stock exchange. A trading lot amounts to one share. There are no limitations to rights of transfer due to stipulations of law or the Articles of Association.

As stated above, the direct or indirect shareholdings in the Company representing at least one-tenth of the votes for all shares in the Company are held by Lindéngruppen with 21.8% of the share capital and 37.8% of the votes and Industrivärden with 12.6% of the share capital and 10.1% of the votes. There were no employee shareholdings through pension funds.

There are no limitations in terms of how many votes a shareholder can poll at an Annual General Meeting (AGM). Nor are there any known agreements between shareholders that might imply limitations to the right to transfer shares.

The Articles of Association state that Board members are elected by AGMs for the period until the end of the first AGM held the year after the Board member was appointed. Regarding amendments to the Articles of Association, the Articles of Association state that invitations to AGMs that are to consider amendments of the Articles of Association will be issued at the earliest six weeks and the latest four weeks prior to such meeting.

The AGM on 2 May 2012 granted the Board of Directors a mandate to transfer treasury shares to fulfil the commitments relating to the staff stock option plan of 2009. Höganäs did not transfer any shares in 2012. There are no agreements between the Company and Board members or employees stipulating remuneration if their employment ceases as a result of a public takeover bid for the Company. On termination initiated by the Company, the Chief Executive Officer is entitled to severance pay of two years' salary including pension benefits. On termination initiated by the Company, another 19 managers are entitled to severance pay of up to 24 months' salary including notice and pension benefits. No severance pay is due on termination initiated by the employees.

## Significant events in the financial year or subsequent events

### *Höganäs delivers metal powder for laser surface coating of valve seats*

In the year, 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. Apart from significantly lower cost and superior reliability, this 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.

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.

### *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 its work on accumulating know-how end to end in the value chain for these components, Höganäs has identified 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. 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 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 for current development work is market value doubling over time.

### *Acquisition of Fcubic AB*

In September 2012, Höganäs exercised an option to acquire 100% of the company Fcubic AB, with registered office in Gothenburg, Sweden, Note 35. Completion of this transaction was on 1 November 2012.

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®, and this company's corporate name was changed to Digital Metal AB.

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.

### *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 an increase of some 5-10% 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.

### *Adapting production capacity and organisational resources to current market conditions*

To address weakening demand on the global market, Höganäs executed an adaptation of its production capacity and organisation in the second half of the year. In addition to staff reductions affecting 15 people in the third quarter, the necessary capacity adaptations also resulted in further staff reductions in the fourth quarter, affecting some 100 staff in Sweden, the US, Belgium and Brazil. Additionally, some plants shut down production temporarily for an extended period in December.

Of the total of around 100 people affected, some 75 were linked to the operation in Sweden. Of these, some 40 are white-collar workers and the remainder blue-collar workers. The cost of this measure was MSEK 44, which was charged to operating income in the fourth quarter 2012. Adaptations executed are expected to reduce annual operating expenses by some MSEK 60, effective 2013 onwards.

### *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 has undertaken 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 financed 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 prevailing between some Board members of Höganäs and Lindéngruppen. The scheduled acceptance period for the offer is from 15 March 2013 to 24 May 2013, both dates inclusive. The scheduled settlement date is 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. Höganäs' current finance agreement states that such a situation, would trigger renegotiation of its current credit facility, Note 23. If the parties do not reach an agreement on the terms and conditions for continued finance, the bank syndicate has the option to cancel the finance agreement in advance.

## Research and development

To exploit the opportunities brought by change in the surrounding world and drive development towards broader usage of metal powder, we are investing in research and development at our global development centres. We call these our Power of Powder Centres (PoP Centres), which are located in Sweden and India. These centres drive the development of wider usage of metal powders. We also have Tech Centres (for technical support) in Sweden, North America and China. Höganäs has a total of approximately 120 engineers and technologists active in research and development. Many of them are engaged in Höganäs' six prioritised application segments:

- Sintered components
- Electromagnetic applications
- Surface coating
- Brazing
- Filters
- Metal Injection Moulding (MIM)

For more information on each priority application segment, see page 9. Each segment has a development function working on preparing new products and materials. They are in close collaboration with Höganäs' sales companies, where sales people often maintain daily contact with customers. Höganäs also operates a group called Future Technologies, whose mission is to capture the latest trends on the market and research. This group is in close contact with leading universities, research institutes and networks worldwide.

Höganäs engineers work and collaborate in PoP Centres towards the shared goal of transforming an understanding of needs in each segment into application ideas and customer collaborations. The development functions shared their knowledge through PoP Centres, which might be collective issues such as developing binding agents, lubricants and other components for powder mixes, which benefit customers. Höganäs uses its PoP Centres to develop prototypes, perform analysis and testing, improve and enhance customers' manufacturing processes, and run internal and external training programmes.

Three product development segments are especially attractive to Höganäs customers: materials, design and processes. Höganäs can apply its powder metallurgy expertise to all three segments to develop new products. Alongside its customers, Höganäs has migrated upwards in the value chain and developed new applications such as electric drive systems for electric bicycles, inductors for more efficient energy consumption and additive manufacturing with metal powder for component manufacture in segments such as consumer design, manufacturing, dental care, medicine and aerospace.

Total expenditure on research and development in the year, including technical customer service and Höganäs' internal process re-engineering, was MSEK 201 (179), of which MSEK 169 (157) was charged to net income and MSEK 32 (22) is recognised as capitalised development expenses. Accordingly, the Group's total invested resources in research and development were some 3% (3) of turnover and 3% (3) of total operating expenses.

## Risks and risk management

Höganäs' operations are affected by the progress of the international economy. Exposure to the car industry makes the Group especially sensitive to progress in this sector. These risks are hard to protect against in the short term. In a longer perspective, Höganäs does this by developing products with higher value-added and by focusing on future-oriented segments.

Many of Höganäs' products are exposed to competition, and several of the major competitors have continuously improved the quality of their products over recent years. In addition, the powder metallurgy industry is subject to overcapacity. Through its strategy of being the technology, product and commercially leading producer of metal powder, Höganäs will retain and strengthen its positioning in comparison to competitors.

The production of metal powder is in a chain of processes, and accordingly, disruptions at various points can have major consequences. Interruptions to production due to transportation problems or fire, explosions or other types of accident may be costly. To minimise the risks of consequential losses, Höganäs maintains reserves of raw materials and finished products. Production can also be relocated within the Group to minimise the risks of consequential losses. Höganäs has been collaborating with a property and consequential loss insurer since 2010, FM Global, and conducts extensive yearly inspections of all production facilities. Continuous and systematic damage prevention work is also conducted with the aim of further reducing the risks of production disruptions. Purchasing risks cover delivery reliability, quality and the pricing of materials and energy. Höganäs endeavours to maintain at least two suppliers for selected strategic raw materials. The Parent Company is responsible for the procurement of certain metals and other strategic goods being co-ordinated, but other risks are managed locally at each production facility. A global and competitive operation is subject to the risk of new products and processes being plagiarised. Intellectual property risks are managed by the Group's research and development function. Höganäs applies for patents on technical innovations and processes developed within the Group, and monitors compliance with patent protection. Höganäs' reputation may be damaged if safety, environmental responsibility and ethics come under question. These risks are managed systematically by approved management systems, and conducted locally by the Group's functional support. These matters are also dealt with in ongoing work through training and influencing attitudes.

Prospects of attracting and retaining competent employees are important for running operations with good profitability for the long term. Competence and management development are conducted through channels including the Höganäs Business Academy.

More information on Höganäs' operational risks is on pages 21-23.

Financial risks are in addition to operational risks; these are primarily exchange rate and metal price risks. Höganäs' Finance Policy, controlled and monitored by the Board of Directors, states the framework for the management of financing and other types of financial risk. The Policy defines the risk exposure to which operations are conducted. For more information on Höganäs' financial risks, see Note 31.

## Sustainable development

The Höganäs Corporate Competence Centre coordinates the Group's sustainability work, and includes specialist competences from HR, health, the environment, health and safety and security. All regions are represented in this organisation to ensure a clear division of responsibility and implementation. Representatives meet regularly, report according to key ratios and develop best practice together, which is then introduced regionally. Höganäs has identified three segments where sustainability work has extra importance; the utilisation of resources, energy efficiency and health and safety.

### *Utilisation of resources*

Our vision is not to generate any sector-specific waste. Our primary strategies for achieving this are to maximise utilisation of materials in production and thus avoid wastage. Minimise residual product flows by closing processing stages and increasing the number of production cycles between maintenance stoppages, for example, and reduce waste volumes by finding and developing application segments for residual products. All residual products from our production are managed either as by-products or waste. By-products are returned to production all sold on to our customers. In 2012, Höganäs built a dispatching point for lime from the tunnel kilns, a product of accumulated slag from the Sponge Iron plant at Höganäs. Tunnel kiln lime is sold for various purposes including soil stabilisation. Soil stabilisation enables loamy and subsiding land to become usable for the construction of housing and other buildings.

*Energy efficiency*

The Höganäs Group's energy strategy is based on the energy audits conducted in 2009 and 2010. This strategy includes the requirement of Höganäs' Project Handbook governing product and process development containing a dedicated section on energy. Energy management systems should also be implemented for all regions of the Höganäs Group and every regional management should appoint an energy manager. A three-year plan for energy work should be prepared for each region, and be reported to Group Management.

Höganäs' objective for energy saving is to reduce energy consumption in manufacture by 10% by 2020, measured in kWh per ton, with 2010 as the base year. This will be achieved through a combination of rationalisation, process re-engineering, exchange of best practice and investment.

All employees should take training in energy awareness and energy management systems to increase their knowledge in this segment and give people the opportunity to make a contribution to Höganäs' "Energy Challenge—10% 2020." In 2012, Höganäs consumed 1,650 kWh/ton of finished product. The target is to cut Höganäs' energy needs to 1,500 kWh before 2020. Höganäs has already succeeded in reducing its energy consumption by 10% per produced ton in the last 10 years.

*Health and safety*

For a processing company like Höganäs, the working environment and safety are crucial. Höganäs should be a safe and healthy workplace without any workplace accidents: the "Zero Accidents" vision. All regions have been integrated in collective occupational health and safety work since 2010. In the year, actions included the introduction of a collective occupational health and safety directive. In this context, Höganäs developed a tool for evaluating working methods and organisational maturity for systematic occupational health and safety work. The purpose of the occupational health and safety directive and evaluation tool are to create an understanding-based dialogue and exchange of best practice within Höganäs.

*Terms and conditions governing operations and permits*

Höganäs conducts operations that are subject to permits and reporting. In all the countries where Höganäs has production, regulatory permits are necessary to produce metal powder. These permits mainly regulate production volumes, air and waterborne emissions, noise and waste. The permits are issued for a finite period or until further notice and are in place for all production facilities.

An in-depth survey of the incidence of land contamination is continuing at the Swedish facilities. The process to apply for a new environmental permit for the plants at Höganäs continued in the year and is expected to enter its final phase in 2013.

## Human resources

In 2012, Höganäs continued its work on strengthening its organisation. HR development, the implementation of e-learning tools and an employee satisfaction survey were some of the priority initiatives in the year.

It is important for Höganäs to be a good employer in order to attract the right competence. This is about a contemporary approach to nurturing long-term traditions, with the Company taking care of its employees, while also providing a clear challenge in their work. There are great opportunities for mobility within the Group—between regions and functions. There are also a lot of examples of how using Höganäs scholarship funds, employees have taken further study and continued their career within the Company. Broad geographical diversity is a guarantee of local knowledge and closeness to customers, but also a challenge to disseminate best practice and internal communication. Höganäs has introduced an e-learning tool available to all employees. In 2012, Höganäs launched a basic course in energy efficiency for increased understanding of the Company's sustainability work, and a course in pricing.

The Höganäs Business Academy (HBA) is an initiative aimed at developing competence in managers and key staff.

This program includes a number of modules such as leadership, business practice and strategy work. Höganäs uses the HBA to identify and develop talented individuals to ensure succession in key functions. In 2012, Höganäs started work on a new module in the HBA called "Knowing Höganäs." The intention is to provide basic and broad-based knowledge of Höganäs as a company, from its inception in 1797 to today's business and corporate culture.

In October 2012, Höganäs conducted a satisfaction survey covering all employees, which it runs every other year. Internal communication scored poorly in the previous survey in 2010, and as a direct result, Höganäs introduced a new global intranet. The satisfaction survey has broad coverage including questions on the Company's position on the market, management, individual roles and prospects of influencing their situation at work. 88% of employees responded to this year's survey, up 3% on the previous one, which is a very high response frequency for this type of survey.

Overall, all responses were more positive in 2012 than 2010, and this applies especially to overall satisfaction and loyalty. Results have been analysed by region and country, and work on identifying potential improvements based on the results is now starting.

With the aim of increasing employees' interest in, and commitment to, Höganäs' operations, Höganäs introduced a profit share system for all Group staff in 2010, a total of 1,656 (1,707) employees in 15 countries at year-end. This program runs for the period 2010-2012. Entitlement to profit sharing starts when the Group's income after tax exceeds MSEK 591 (468), and the full allocation is when income exceeds MSEK 827 (656). The maximum allocation in the Group for the profit share program 2012 is MSEK 41.3 (32.9). The provision for the profit share for the year in the annual financial statement was MSEK 8.7 (32.9).

## Acquisitions, transfers and holdings of treasury shares

At the beginning of 2012, Höganäs had 293,800 treasury shares, corresponding to 0.9% of the total number of class B shares. Höganäs did not re-purchase or transfer any shares in 2012. The number of shares has not changed (more information under incentive schemes) and at year-end 2012, was 293,800. The quotient value per share is SEK 5.

### Statement on the work of the Board in the year/corporate governance

The work of the Board is reviewed in the Corporate Governance Report on page 28-29. More information on how long each Board member has been on Höganäs' Board of Directors, other assignments and main employment are stated on the Board's presentation on pages 30–31and the Company's website, www.hoganas.com.

### Incentive schemes

The AGMs 2007–2009 resolved on the introduction of a performance-related staff stock option plan with the aim of offering key staff of the Group the opportunity of future stakeholding in the Company, thus increasing their interest in, and commitment to, the Company's operations. This plan was for the years 2007–2009 and covered the Chief Executive Officer and other members of the Group management, as well as another 35 or so key staff of the Group, totalling some 50 people. These individuals were granted options depending on how the Group progressed in relation to targets set by the Board of Directors. Granting is conditional on the holder remaining an employee at the expiry of the term. The term of the staff stock options is a minimum of two, and a maximum of four, years from the grant date, with half of the options become exercisable two years after granting and the remainder three years after granting. In order to implement the staff stock option plan, the Board of Directors has been authorised to decide on the purchase and transfer of class B treasury shares. More information on the staff stock auction plan is in Note 25 on pages 85–86.

At the end of 2011, the Board of Directors took a decision on a long-term incentive program, with a vesting period of 2012–2014. The purpose of this program is to increase senior managers' interest in, and commitment to, the Company's operations. The bonus program means that participants will get the opportunity of receiving an extra bonus in addition to their existing performance-related pay. Ten senior managers were covered by this bonus program, whose outcome is based on income before tax for the financial year 2011–2013. The bonus per participant may be a maximum of one years' salary. One prerequisite for a bonus payment is that the participant remains an employee of Höganäs during the vesting period until the payment date in the year 2014.

### Expectations of future progress

It remains uncertain how much the debt and liquidity crisis will affect global industrial activity in 2013. The underlying long-term demand conditions appear strong in South America and Asia. However, in the short term Asia will be negatively affected by the recovery effect in Japan in 2012, following a weak 2011 resulting from the tsunami , will not be repeated in 2013. In addition, the Indian economy remains relatively weak and the Asian export industry is affected by weak markets in Europe. In the short term, we think that demand will improve in North America, but the rate of recovery will remain volatile. European market conditions were significantly weaker in 2012 as a result of falling domestic demand and there appear to be few prospects of a rapid recovery. Metal prices and exchange rates are expected to stay volatile, which will affect earnings performance.

### Remuneration guidelines for senior managers

Fees are payable to the Chairman of the Board and Board members, for work on the Board of Directors and Committees in accordance with AGM resolution. The AGM resolved on the following guidelines for remunerating management. Remuneration to the Chief Executive Officer and other senior managers consists of basic salary, performance-related pay, other benefits, pensions and financial instruments. Other senior managers mean the ten people that comprised the Group management in 2012 jointly with the Chief Executive Officer. The division between basic salary and performance-related pay will be proportional to the executive's responsibilities and authority. Performance-related pay should reward clearly goal-oriented performance and improvements, structured in a simple, transparent manner. Performance-related pay should be subject to a maximum limit, which normally amounts to 50% of basic salary.

Pension benefits and benefits in the form of financial instruments, as well as other benefits to the Chief Executive Officer and other senior managers will be payable as a part of total remuneration.

The corporate management and other key staff will be eligible for incentive programs. This entitlement should relate to the Company's progress, with granting determined by balancing predetermined target figures for volume and earnings growth, for example, and return on capital employed, as determined by the Board of Directors.

The Board of Directors' proposed remuneration guidelines for senior managers for 2013 are unchanged. More information on remuneration principles and remuneration to senior managers is stated in Note 25 on pages 84-86.

## PARENT COMPANY

### Operations—general

The Parent Company's operations consist of the supply of group-wide services, such as IT, research and development, treasury, marketing and similar central functions. The Parent Company's financial risks and risk management strategy is described in Note 31.

As of 1 November 2012, the Parent Company acquired 100% of the shares of Fcubic AB, corporate name changed to Digital Metal AB. The purchase price was MSEK 30. For further information relating to the acquisition, see Note 35.

### Progress of the Parent Company's operations results of operations and financial position

Invoicing of group-wide services in the year was MSEK 169 (169).

Sales overheads were MSEK -51 (-54) and administration expenses were MSEK -167 (-150). Research and development expenses were MSEK -186 (-172). Overheads for staff reductions of MSEK -4 were charged to sales overheads, administration expenses of MSEK -12 and research and development expenses of MSEK -2.

Other operating income and expenses were a total of MSEK 6 (7). The profit/loss from participations in group companies was MSEK 123 (131), which is dividends received on participations in group companies. Other financial items were MSEK 154 (-64), of which the main changes relate to the outcome of cash flow hedges and the profit/loss from exchange rate differences.

Income after financial items was MSEK 48 (-133). Appropriations for the year were MSEK 410 (487), of which group contributions received (net) were MSEK 498 (490). Income after tax was MSEK 365 (288).

### Amended accounting principles

The accounting principles regarding reporting Group contributions changed in 2012, implying that group contributions received/paid in the Parent Company Income Statement are posted to the item Appropriations. In 2011, net group contributions received were MSEK 490 included in earnings from participations in Group companies. The comparative figures have been restated accordingly.

# APPROPRIATION OF PROFITS

### Proposed appropriation of profits

The Board of Directors proposes that the funds at the disposal of the Annual General Meeting of SEK 1,369,601,572 are appropriated as follows:

| | |
|---|---|
| Dividends, 34 805 132 * 10,00 kr | 348,051,320 |
| Carried forward | 1,021,550,252 |
| **Total** | **1,369,601,572** |

The Board of Directors' view is that the proposed dividend will not prevent the Company from fulfilling its commitments in the short and long-term, nor from completing necessary investments. Accordingly, the proposed dividend is justifiable in terms of the stipulations of the Swedish Companies Act, chap. 17 § 3 paragraphs 2-3 (the principle of prudence).

The proposed dividend increases the Group's debt/equity ratio to 24%. The Board of Directors judges that liquidity of the Group will be maintainable at a satisfactory level.

The Board of Directors and Chief Executive Officer certify that the consolidated accounts have been prepared in accordance with IFRS (International Financial Reporting Stan- Höganäs) as endorsed by the EU and give a true and fair view of the Group's financial position and results of operations. The annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations.

The Directors' Report for the Group and Parent Company give a true and fair view of the progress of the Group's and Parent Company's operations, financial position and results of operations and review the significant risks and uncertainty factors facing the Parent Company and Group companies.

As stated above, the annual accounts and consolidated accounts were approved for issuance by the Board of Directors and Chief Executive Officer on 1 March 2013. The Consolidated Income Statement, Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position and the Parent Company Income Statement, Parent Company Statement of Comprehensive Income and Parent Company Balance Sheet will be subject to adoption by the AGM on 29 April 2013.

Höganäs, Sweden, 1 March 2013

Anders G Carlberg
*Chairman*

Peter Gossas
*Board member*

Urban Jansson
*Board member*

Bengt Kjell
*Board member*

Jenny Lindén Urnes
*Board member*

Björn Rosengren
*Board member*

Erik Urnes
*Board member*

Karl-Henry Boo
*Union representative*

Alrik Danielson
*CEO*

Tony Petersson
*Union representative*

Our Audit Report was presented on 15 March 2013
KPMG AB

Helene Willberg
*Authorised Public Accountant*

# Consolidated Income Statement

1 January – 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| Net sales | 2 | 6,712 | 7,081 |
| Cost of goods sold | | -5,061 | -5,303 |
| **Gross profit** | | **1,651** | **1,778** |
| Selling expenses | | -270 | -279 |
| Administrative expenses | | -325 | -284 |
| Research and development costs | | -169 | -157 |
| Other operating income | 3 | 20 | 15 |
| Other operating expenses | 4 | -4 | -2 |
| **Operating income** | 2, 5, 6, 7, 13, 25 | **903** | **1,071** |
| Financial income | | 10 | 11 |
| Financial expenses | | -45 | -58 |
| **Net financial income/expense** | 8 | **-35** | **-47** |
| **Income before tax** | | **868** | **1,024** |
| Tax | 9 | -170 | -262 |
| **Net income** | | **698** | **762** |
| **Net income attributable to:** | | | |
| Parent Company shareholders | | 698 | 762 |
| Non-controlling interests | | 0 | 0 |
| **Net income** | | **698** | **762** |
| **Earnings per share:** | 21 | | |
| Before dilution (SEK) | | 20.04 | 21.90 |
| After dilution (SEK) | | 20.04 | 21.90 |

# Consolidated Statement of Comprehensive Income

1 January – 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| **Net income** | 2 | **698** | **762** |
| **Other comprehensive income** | | | |
| Translation differences for the period | | -293 | 21 |
| Hedging of currency risk in foreign operations | | 142 | -59 |
| Cash flow hedges | | 108 | -148 |
| Tax attributable to other comprehensive income | 9 | -54 | 47 |
| **Other comprehensive income for the year** | | **-97** | **-139** |
| **Comprehensive income for the year** | | **601** | **623** |
| **Comprehensive income for the year attributable to:** | | | |
| Parent Company shareholders | | 601 | 623 |
| Non-controlling interests | | 0 | 0 |
| **Comprehensive income for the year** | | **601** | **623** |

# Consolidated Statement of Financial Position

As of 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| **ASSETS** | 35 | | |
| Intangible assets | 11 | 326 | 301 |
| Property, plant and equipment | 12 | 2,546 | 2,556 |
| Long-term receivables | 16 | 89 | 88 |
| Deferred tax assets | 9 | 32 | 35 |
| **Total fixed assets** | | **2,993** | **2,980** |
| | | | |
| Inventories | 17 | 1,564 | 1,701 |
| Tax assets | | 13 | 64 |
| Accounts receivable | 18 | 826 | 934 |
| Prepaid expenses and accrued income | 19 | 22 | 33 |
| Other receivables | | 141 | 115 |
| Short-term investments | | 28 | 27 |
| Cash and cash equivalents | 20 | 148 | 82 |
| **Total current assets** | | **2,742** | **2,956** |
| **TOTAL ASSETS** | | **5,735** | **5,936** |
| | | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | 21 | | |
| Share capital | | 175 | 175 |
| Reserves | | -295 | -198 |
| Profit brought forward including net income | | 3,887 | 3,537 |
| **Shareholders' equity attributable to Parent Company shareholders** | | **3,767** | **3,514** |
| | | | |
| Non-controlling interests | | 0 | 0 |
| **Total shareholders' equity** | | **3,767** | **3,514** |
| | | | |
| **Liabilities** | 35 | | |
| Long-term interest-bearing liabilities | 23,31 | 474 | 819 |
| Other long-term liabilities | 24 | 48 | 40 |
| Provisions for pensions | 25 | 8 | 9 |
| Other provisions | 26 | 14 | 14 |
| Deferred tax liabilities | 9 | 418 | 370 |
| **Total long-term liabilities** | | **962** | **1,252** |
| | | | |
| Current interest-bearing liabilities | 23 | 151 | 133 |
| Advances from customers | | 5 | 4 |
| Accounts payable | | 450 | 527 |
| Tax liabilities | | 33 | 50 |
| Other liabilities | | 73 | 123 |
| Accrued expenses and deferred income | 28 | 282 | 299 |
| Other provisions | 26 | 12 | 34 |
| **Total current liabilities** | | **1,006** | **1,170** |
| **Total liabilities** | | **1,968** | **2,422** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **5,735** | **5,936** |

**Pledged assets and contingent liabilities for the Group**

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| Pledged assets | 29 | 51 | 59 |
| Contingent liabilities | 29 | 75 | 85 |

# Consolidated Statement of Changes in Shareholders' Equity

| MSEK | SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note 21 | Share capital | Translation reserve | Hedging reserve | Profit brought forward incl. net income | Total | Non-controlling interests | Total shareholders' equity |
| Opening shareholders' equity, 1 Jan. 2011 | | 175 | -124 | 65 | 3,123 | 3,239 | 0 | 3,239 |
| **Comprehensive income for the year** | | | | | | | | |
| Net income | | - | - | - | 762 | 762 | 0 | 762 |
| Other comprehensive income for the year | | - | -30 | -109 | - | -139 | 0 | -139 |
| **Comprehensive income for the year** | | **-** | **-30** | **-109** | **762** | **623** | **0** | **623** |
| **Transactions with the Group's owners** | | | | | | | | |
| Dividends paid | | - | - | - | -348 | -348 | 0 | -348 |
| **Closing shareholders' equity, 31 Dec. 2011** | | **175** | **-154** | **-44** | **3,537** | **3,514** | **0** | **3,514** |
| | | | | | | | | |
| Opening shareholders' equity, 1 Jan. 2012 | | 175 | -154 | -44 | 3,537 | 3,514 | 0 | 3,514 |
| **Comprehensive income for the year** | | | | | | | | |
| Net income | | - | - | - | 698 | 698 | 0 | 698 |
| Other comprehensive income for the year | | - | -179 | 82 | - | -97 | 0 | -97 |
| **Comprehensive income for the year** | | **-** | **-179** | **82** | **698** | **601** | **0** | **601** |
| **Transactions with the Group's owners** | | | | | | | | |
| Dividends paid | | - | - | - | -348 | -348 | 0 | -348 |
| **Closing shareholders' equity, 31 Dec. 2012** | | **175** | **-333** | **38** | **3,887** | **3,767** | **0** | **3,767** |

# Consolidated Statement of Cash Flows

1 January – 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating income | | 903 | 1 071 |
| *Adjustments for non-cash items* | | | |
| Depreciation and amortisation | 11,12 | 319 | 293 |
| Reversal of impairment | 12 | - | -11 |
| Unrealised exchange rate differences | | 12 | -3 |
| Capital loss on sale | | 4 | 16 |
| Other items | | -7 | -2 |
| Interest received | | 10 | 10 |
| Interest paid | | -36 | -32 |
| Realised exchange rate differences | | -19 | -23 |
| Other financial expenditures | | -1 | -1 |
| Income tax paid | | -138 | -327 |
| **Cash flow from operating activities before changes in working capital** | | **1,047** | **991** |
| | | | |
| **Cash flow from changes in working capital** | | | |
| Increase (-)/decrease (+) in inventories | | 59 | -112 |
| Increase (-)/decrease (+) in operating receivables | | 85 | -30 |
| Increase (+)/decrease (-) in operating liabilities | | -69 | -46 |
| **Cash flow from operating activities** | | **1,122** | **803** |
| | | | |
| **Investing activities** | | | |
| Acquisition of operations | 35 | -7 | - |
| Acquisition of intangible assets | 11 | -51 | -42 |
| Divestment of intangible assets | | 15 | 10 |
| Purchase of property, plant and equipment | 12 | -389 | -424 |
| Sale of property, plant and equipment | | 5 | 3 |
| Acquisitions of financial fixed assets | | -10 | -19 |
| **Cash flow from investing activities** | | **-437** | **-472** |
| | | | |
| **Financing activities** | | | |
| Borrowings | | 590 | 442 |
| Amortisation of loans | | -857 | -447 |
| Dividend paid | | -348 | -348 |
| **Cash flow from financing activities** | | **-615** | **-353** |
| | | | |
| **Cash flow for the year** | | **70** | **-22** |
| Cash and cash equivalents at beginning of year | | 82 | 106 |
| Exchange rate differences in cash and cash equivalents | | -4 | -2 |
| **Cash and cash equivalents at end of year** | 20 | **148** | **82** |

# Parent Company Income Statement

1 January – 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| Net sales | 2 | 169 | 169 |
| | | | |
| Selling expenses | | -51 | -54 |
| Administration expenses | | -167 | -150 |
| Research and development costs | | -186 | -172 |
| Other operating income | 3 | 7 | 9 |
| Other operating expenses | 4 | -1 | -2 |
| **Operating income** | 5, 6, 13 | **-229** | **-200** |
| | | | |
| *Profit from financial items:* | | | |
| Earnings on participations in Group companies | 8 | 123 | 131 |
| Interest income and similar items | 8 | 204 | 35 |
| Interest expenses and similar items | 8 | -50 | -99 |
| **Profit after financial items** | | **48** | **-133** |
| | | | |
| Appropriations | 10 | 410 | 487 |
| **Income before tax** | | **458** | **354** |
| | | | |
| Tax | 9 | -93 | -66 |
| **Net income** | | **365** | **288** |

# Parent Company Statement of Comprehensive Income

1 January – 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| **Net income** | | **365** | **288** |
| | | | |
| **Other comprehensive income** | | | |
| Cash flow hedges | | 3 | 4 |
| Tax attributable to other comprehensive income | 9 | -1 | -1 |
| **Other comprehensive income for the year** | | **2** | **3** |
| | | | |
| **Comprehensive income for the year** | | **367** | **291** |

# Parent Company Balance Sheet

As of 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Intangible assets | 11 | 65 | 75 |
| Property, plant and equipment | 12 | 129 | 104 |
| | | | |
| Financial fixed assets | | | |
| Shares in Group companies | 14 | 3,620 | 3,561 |
| Receivables from Group companies | 15 | 297 | 259 |
| Other long-term receivables | 16 | 3 | 6 |
| Deferred tax assets | 9 | - | 15 |
| Total financial fixed assets | | 3,920 | 3,841 |
| | | | |
| **Total fixed assets** | | **4,114** | **4,020** |
| | | | |
| **Current assets** | | | |
| **Current receivables** | | | |
| Receivables from Group companies | | 36 | 34 |
| Tax assets | | - | 64 |
| Other receivables | | 90 | 42 |
| Prepaid expenses and accrued income | 19 | 7 | 14 |
| **Total current receivables** | | **133** | **154** |
| | | | |
| Cash and bank balances | 20 | 3 | 0 |
| **Total current assets** | | **136** | **154** |
| | | | |
| **TOTAL ASSETS** | | **4,250** | **4,174** |

# Parent Company Balance Sheet, cont.

As of 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | 21 | | |
| *Restricted equity* | | | |
| Share capital (981,000 class A shares and 34,117,932 class B shares) | | 175 | 175 |
| Statutory reserve | | 39 | 39 |
| *Non-restricted equity* | | | |
| Fair value reserve | | -46 | -48 |
| Profit brought forward | | 1,050 | 1,110 |
| Net income | | 365 | 288 |
| **Total shareholders' equity** | | **1,583** | **1,564** |
| **Untaxed reserves** | 22 | **149** | **61** |
| **Provisions** | | | |
| Provisions for pensions | 25 | 2 | 5 |
| Provisions for tax | 9 | 10 | - |
| **Total provisions** | | **12** | **5** |
| **Long-term liabilities** | | | |
| Liabilities to credit institutions | 27 | 439 | 785 |
| Liabilities to Group companies | | 1,153 | 1 071 |
| Other long-term liabilities | 24 | 22 | 8 |
| **Total long-term liabilities** | | **1,614** | **1,864** |
| **Current liabilities** | | | |
| Liabilities to credit institutions | 27 | 60 | 39 |
| Accounts payable | | 14 | 17 |
| Liabilities to Group companies | | 724 | 477 |
| Current tax liabilities | | 13 | - |
| Other liabilities | | 15 | 69 |
| Accrued expenses and deferred income | 28 | 66 | 78 |
| **Total current liabilities** | | **892** | **680** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **4,250** | **4,174** |

**Parent Company pledged assets and contingent liabilities**

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| Pledged assets | 29 | 10 | 10 |
| Contingent liabilities | 29 | 303 | 344 |

# Parent Company Statement of Changes in Shareholders' Equity

| MSEK | | RESTRICTED EQUITY | | NON-RESTRICTED EQUITY | | |
|---|---|---|---|---|---|---|
| | Note 21 | Share capital | Statutory reserve | Fair value reserve | Profit brought forward | Total share-holders' equity |
| Opening shareholders' equity, 1 Jan. 2011 | | 175 | 39 | -51 | 1,458 | 1,621 |
| **Comprehensive income for the year** | | | | | | |
| Net income | | - | - | - | 288 | 288 |
| Other comprehensive income for the year | | - | - | 3 | - | 3 |
| **Comprehensive income for the year** | | **-** | **-** | **3** | **288** | **291** |
| Dividends | | - | - | - | -348 | -348 |
| **Closing shareholders' equity, 31 Dec. 2011** | | **175** | **39** | **-48** | **1,398** | **1,564** |
| Opening shareholders' equity, 1 Jan. 2012 | | 175 | 39 | -48 | 1,398 | 1,564 |
| **Comprehensive income for the year** | | | | | | |
| Net income | | - | - | - | 365 | 365 |
| Other comprehensive income for the year | | - | - | 2 | - | 2 |
| **Comprehensive income for the year** | | **-** | **-** | **2** | **365** | **367** |
| Dividends | | - | - | - | -348 | -348 |
| **Closing shareholders' equity, 31 Dec. 2012** | | **175** | **39** | **-46** | **1,415** | **1,583** |

# Parent Company Cash Flow Statement

1 January – 31 December

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating income | | -229 | -200 |
| *Adjustments for non-cash items* | | | |
| Depreciation and amortisation | 11, 12 | 35 | 32 |
| Capital loss on sale | | 0 | 0 |
| Other items | | -3 | -1 |
| Dividends received | | 123 | 131 |
| Interest received | | 7 | 7 |
| Interest paid | | -47 | -43 |
| Realised exchange rate differences, including currency hedges | | 2 | 57 |
| Other realised derivatives | | 17 | 29 |
| Income tax paid | | 8 | -243 |
| **Cash flow from operating activities before changes in working capital** | | **-87** | **-231** |
| | | | |
| **Cash flow from changes in working capital** | | | |
| Increase (-)/decrease (+) in operating receivables | | -4 | 58 |
| Increase (+)/decrease (-) in operating liabilities | | -5 | 5 |
| **Cash flow from operating activities** | | **-96** | **-168** |
| | | | |
| **Investing activities** | | | |
| Acquisition of operations | 35 | -8 | - |
| Amortisation from/lending to group companies | | 814 | 728 |
| Purchase of intangible assets | 11 | -11 | -20 |
| Purchase of property, plant and equipment | 12 | -48 | -30 |
| Sale of property, plant and equipment | | 0 | 1 |
| Capital contribution paid to subsidiary | 14 | -29 | -149 |
| Purchase/sale of financial fixed assets | | 1 | -1 |
| **Cash flow from investing activities** | | **719** | **529** |
| | | | |
| **Financing activities** | | | |
| Borrowing | | 562 | 374 |
| Amortisation of loans | | -834 | -390 |
| Dividend paid | | -348 | -348 |
| **Cash flow from financing activities** | | **-620** | **-364** |
| | | | |
| **Cash flow for the year** | | **3** | **-3** |
| Cash and cash equivalents at beginning of year | | 0 | 3 |
| **Cash and cash equivalents at end of year** | 20 | **3** | **0** |

# Notes on the financial statements

# Notes on the financial statements

## Note 1 SIGNIFICANT ACCOUNTING PRINCIPLES

### (a) Consistency with standards and laws

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB (International Accounting Standards Board) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the EU. RFR 1 (issued by Rådet för finansiell rapportering, the Swedish Financial Reporting Board), Supplementary Accounting Rules for Groups, has also been applied.

The Parent Company applies the same accounting principles as the Group apart from those cases stated below in the 'Parent Company's accounting principles' section.

The Board of Directors and Chief Executive Officer adopted the annual accounts and consolidated accounts on 1 March 2013. The Consolidated Income Statement, Statement of Comprehensive Income, Statement of Financial Position and the Parent Company Income Statement, Statement of Comprehensive Income and Balance Sheet will be subject to adoption by the Annual General Meeting on 29 April 2013.

### (b) Basis of valuation for the financial statements

Assets and liabilities are reported at historical cost, apart from certain financial assets and liabilities, which are measured at fair value. The financial assets and liabilities measured at fair value consist of derivative instruments.

### (c) Functional currency and reporting currency

The Parent Company's functional currency is the Swedish krona, which is also the presentation currency of the Parent Company and Group. This means that the financial statements are presented in Swedish kronor. All amounts are in millions of Swedish kronor (MSEK) unless otherwise stated.

### (d) Judgements and estimates in the financial statements

Preparing financial statements in accordance with IFRS requires the management to make judgements and estimates, and assumptions that influence the adoption of the accounting principles and the reported values of assets, liabilities, income and expenses. Actual outcomes may diverge from these estimates and judgements.

The estimates and assumptions are reviewed regularly. Changed estimates are reported in the period the change is made if the change only affects this period, or in the period the change is made and future periods, if the change affects both current and future periods. Judgements made by management when adopting IFRS, which have a significant influence on the financial statements and estimates that may result in significant adjustments in the subsequent year's financial statements, are reviewed in more detail in Note 33.

### (e) Significant accounting principles applied

With the exception of the cases detailed, the following accounting principles have been consistently applied for all periods published in the consolidated accounts. The Group's accounting principles have been consistently applied by Group companies.

### (f) Amended accounting principles

Amendments of IFRS with application from 2012 onwards did not have any material effect on the Group's accounting. The Group's accounting principles are unchanged compared to the previous year.

### (g) New IFRS and interpretation statements that have yet to be applied

A number of new or revised IFRS and interpretation statements do not come into effect until following financial years and have not been applied prospectively when preparing these financial statements. No prospective application of new or amended standards with future application is planned.

Amended IAS 1 *Presentation of Financial Statements* (presentation of other comprehensive income). The amendment endorsed by the EU relates to how items within other comprehensive income should be presented. Items should be divided into two categories; items that will be reclassified to net profit or loss, and items that will not be reclassified. Items that will be reclassified are, for example, translation differences and gains/losses from cash flow hedges. Items not reclassified are, for example, actuarial gains and losses on defined benefit pension plans. This amendment should be applied to financial years starting from 1 July 2012 inclusive with retroactive effect.

Amended IAS 19 *Employee benefits.* This amendment means removal of the corridor method for unreported actuarial losses/gains. Accordingly, the whole pension liability will be recognised in the Statement of Financial Position and the change for the year regarding actuarial assumptions should be recognised against other comprehensive income. Returns measured on plan assets should be based on the discount rate used when measuring the pension obligation. The difference between the real and estimated returns on plan assets shall be reported in other comprehensive income. The Group's unreported actuarial losses amounted to MSEK 149 (164) at year-end 2012. Accordingly, the effect of this amended accounting principle should have a negative impact on consolidated other comprehensive income and an increased pension liability as well as the additional deferred tax receivable. Considering the Group's financial position and results of operations, this effect is judged to be of lesser significance. A detailed reconciliation of opening and closing balances the 2012 and the income effect will be presented in the Interim Report for the first quarter 2013. The amendment endorsed by the EU will be applied to financial years beginning 1 January 2013 or later with retroactive application.

IFRS 9 *Financial Instruments is intended to replace* IAS 39 Financial Instruments: Recognition and Measurement from 2015 onwards at the latest. The IASB has published the first two of at least three parts, which together, will comprise the final IFRS 9. The first part considers the classification and measurement of financial assets.

The categories of financial assets stated in IAS 39 will be replaced by two categories, with measurement at fair value or amortised cost. Amortised cost is used for instruments contained in a business model whose goal is to secure contractual cash flows; which will be made up of payments of principal and interest on principal at specified dates. Other financial assets are recognised at fair value and the possibility of applying the Fair Value Option as in IAS 39 is retained.

Changes in fair value should be recognised in income, with the exception of value changes on equity instruments that are not held for trading, and for which initial choices are made to report value changes in other comprehensive income. Value changes on derivatives in hedge accounting are not affected by this part of IFRS 9, but for the present, will be recognised in accordance with IAS 39. In October 2010, the IASB also published those parts of IFRS 9 that affect the classification and measurement of financial liabilities. The majority is consistent with the previous rules of IAS 39 apart from financial liabilities voluntarily measured at fair value according to the fair value option. For these liabilities, the value change should be allocated between changes stemming from their own credit rating and changes to the reference interest rate. IFRS 9 is expected to exert some impact on reporting of the group's financial instruments.

Höganäs judges that none of the above changes to standards or new interpretation statements adopted from the financial year 2013 onwards or later will have any material effect on the consolidated accounts.

### (h) Classification, etc.

Essentially, fixed assets and long-term liabilities comprise amounts expected to be recovered or paid after more than 12 months from the reporting date. Essentially, current assets and current liabilities exclusively comprise amounts expected to be recovered or paid within 12 months of the reporting date.

### (i) Operating segment reporting

An operating segment is a part of the Group that conducts operations from which it can generate revenues and incur expenses and for which there is independent financial information available. The results of an operating segment are also followed up by the Company's chief operating decision-maker to evaluate results of operations and to allocate resources to the operating segment. Höganäs' operating segments are Components and Consumables. See Note 2 for more information on the division and presentation of operating segments.

### (j) Consolidation principles

#### (i) Subsidiaries

Subsidiaries are companies that Höganäs AB exerts a controlling influence over, which means a direct or indirect right to formulate a company's financial and operational strategies with the purpose of receiving economic rewards. Judgements whether a controlling influence exists, consider potential shares conferring votes, which can be used or converted immediately.

Subsidiary financial statements are consolidated from the acquisition date until the date the controlling influence ceases.

If the subsidiary's accounting principles are not consistent with the Group's accounting principles, re-statements have been made for the Group's accounting principles.

Losses attributable to non-controlling interests are allocated to non-controlling interests despite non-controlling interests being reported as a debit item under shareholders' equity.

*Acquisitions*
Subsidiaries are reported according to the purchase method. This method means that the acquisition of a subsidiary is treated as a transaction whereby the Group indirectly acquires the subsidiary's assets and takes over its liabilities. The fair value of acquired identifiable assets and liabilities taken over, and potential non-controlling interests on the acquisition date is determined in the acquisition analysis. Transaction expenses, apart from transaction expenses attributable to the issue of equity instruments or debt instruments that arise are recognised directly in net income. In business combinations where payments made, potential non-controlling interests and the fair value of previously held participations (in step acquisitions) exceed the fair value of the acquired assets and liabilities taken over are reported separately, the difference is reported as goodwill. When negative, the difference is recognised directly in net income. Payments made in tandem with acquisitions do not include payments relating to the settlement of previous business relations. This type of settlement is recognised in income.

Conditional purchase prices are recognised at fair value at the acquisition date. In cases where the conditional purchase price is classified as an equity instrument, there is no re-statement if the settlement is taken in shareholders' equity. Other conditional purchase prices are re-stated at each reporting date, and the change is recognised in net income. In those cases the acquisition does not relate to 100% of the subsidiary, a non-controlling interest arises. There are two alternatives for reporting non-controlling interests. These two alternatives are to report the non-controlling interest's share of proportional net assets, or that the non-controlling interest is reported at fair value, which means that non-controlling interests hold a participation in goodwill. The choice between these two alternatives for reporting non-controlling interests can be made acquisition by acquisition.

In step acquisitions, goodwill is determined on the day the controlling influence is obtained. Previous holdings are measured at fair value and the value change is recognised in net income.

For disposals resulting in the loss of controlling influence but where there is a remaining interest, this interest is reported at fair value and the value change is recognised in net income.

*Acquisitions of non-controlling interests*
Acquisitions from non-controlling interests are reported as a transaction in shareholders' equity, i.e. between the Parent Company's owners (in profit brought forward) and non-controlling interest. Accordingly, goodwill does not arise in these transactions. The change in non-controlling interests is based on their proportional share of net assets.

*Sales to non-controlling interests*
Sales to non-controlling interests, where controlling interest is retained, are reported as a transaction in shareholders' equity, i.e. between the shareholders of the Parent Company and non-controlling interest. The difference between the proceeds received and the non-controlling interest's proportional share of the acquired net assets is recognised under profit brought forward.

### (ii) Transactions eliminated on consolidation
Intragroup receivables and liabilities, income or expenses and unrealised gains or losses arising from intragroup transactions between Group companies are eliminated fully when the consolidated accounts are prepared.

## (k) Foreign currency
### (i) Foreign currency transactions
Foreign currency transactions are translated to the functional currency at the rate of exchange ruling on the transaction date. The functional currency is the currency in the primary economic environments the companies conduct business. Foreign currency monetary assets and liabilities are translated to the functional currency at the rate of exchange ruling on the reporting date.

Exchange rate differences arising upon translation are recognised in net income. Non-monetary assets and liabilities recognised at historical cost are translated at the rate of exchange ruling at the time of the transaction. Non-monetary assets and liabilities recognised at fair value are translated to the functional currency at the rate of exchange ruling at the time of measurement at fair value.

### (ii) The financial statements of foreign operations
Assets and liabilities of foreign operations, including goodwill and other consolidated surplus values and deficits, are translated from the functional currency of the foreign operations to the Group's presentation currency, Swedish kronor, at the rate of exchange ruling on the reporting date. Income and expenses of foreign operations are translated to Swedish kronor at an average rate of exchange, which is an approximation of the rates of exchange ruling at each transaction date.

Translation differences arising on the currency translation of foreign operations are recognised in other comprehensive income and are accumulated in a separate component of equity, termed the translation reserve. When divesting a foreign operation, the accumulated translation differences attributable to the operation are realised, whereupon they are reclassified from the translation reserve in equity to net income. Since 1 January 2004, i.e. the adoption date of IFRS, translation differences have been recognised in the translation reserve.

### (iii) Net investment in a foreign operation
In practice, long-term monetary receivables/liabilities of a foreign operation, for which settlement is not planned and is unlikely to occur in the foreseeable future are part of Höganäs' net investment in foreign operations.

An exchange rate difference arising on the long-term monetary receivable/liability is recognised in other comprehensive income and accumulated in a separate component of equity, termed the translation reserve. When divesting a foreign operation, the accumulated exchange rate differences attributable to the long-term monetary receivables/liabilities are included in the accumulated translation differences that are reclassified from the translation reserve in equity to net income.

## (l) Income
### (i) Sales of goods
Income from the sale of goods is recognised in net income when the significant risks and rewards associated with ownership of the goods has been transferred to the buyer. Income is not recognised if it is likely that the economic rewards will not flow to the Group. If there is significant uncertainty regarding payment, associated costs or risks of returns, and if the seller retains a commitment to ongoing administration usually associated with ownership, there is no revenue recognition. Income is recognised at fair value of what is received, or is expected to be received, less deductions for discounting.

### (ii) Government subsidies
Government subsidies are reported in the Statement of Financial Position as prepaid income and other long-term liabilities respectively when there is reasonable certainty that the subsidy will be received and the Group will satisfy the terms associated with the subsidy. The subsidy should be subject to systematic allocation in net income in the same way, and in the same periods, as the expenses the subsidy is intended to compensate. Central government subsidies related to assets are recognised in the Statement of Financial Position as deferred income and other long-term liabilities respectively and allocated as other operating income over the useful life of the asset.

## (m) Leases
### (i) Operating leases
Expenses relating to operating leases are recognised in net income on a straight-line basis over the lease term. Benefits received on signing a contract are recognised in net income as a reduction in lease charges on a straight-line basis over the term of the lease. Variable charges are expensed in the periods they arise.

### (ii) Finance leases
Minimum lease payments are divided between interest expenses and amortisation of the outstanding liability. Interest expenses are allocated over the lease term so each accounting period is charged with an amount corresponding to a fixed interest rate for the liability reported in the relevant period. Variable expenses are expensed in the periods they arise.

## (n) Financial income and expenses
Financial income comprises interest income on invested funds, dividend income, profit arising from value changes on financial assets measured at fair value via income as well as gains from hedging instruments that are recognised in net income.

Interest income from financial instruments is recognised in accordance with the effective interest method (see below). Dividend income is recognised when the rights to receive dividends are determined. Income from the sale of a financial instrument is recognised when the risks and rewards associated with ownership of the instrument have been transferred to the buyer and the Group no longer exerts control over the instrument.

Financial expenses comprise interest costs on borrowings, the effect of redemption and present value calculations of provisions, losses caused by value changes on financial assets measured at fair value via income, impairment losses on financial assets and such losses on hedging instruments that are recognised in net income. Borrowing costs are recognised in income by applying the effective interest method, apart from to the extent they are directly attributable to purchases, construction or production of assets that require a significant time to complete for intended use or sale, in which case they are included in the cost of assets.

Exchange gains and losses are reported net.

Effective interest is the interest that discounts the estimated future payments received and made during the expected term of a financial instrument at the reported net value of the financial asset or liability. The calculation encompasses all charges received or paid by the contract parties that comprise a part of the effective interest, transaction expenses and all other discounts and premiums.

### (o) Tax

Income tax consists of current and deferred tax. Income tax is recognised in net income apart from when the underlying transaction is recognised in other comprehensive income or equity, whereupon the associated tax effect is recognised in other comprehensive income or equity. Current tax is tax to be paid or received for the current year, by applying those tax rates that are enacted or substantively enacted as of the reporting date. Current tax also includes adjustments of current tax attributable to previous periods.

Deferred tax is calculated in accordance with the balance sheet method proceeding from temporary differences between carrying amounts and assessed values of assets and liabilities. Temporary differences are not considered in consolidated goodwill, nor for the difference arising in the first reporting of goodwill, nor for the first reporting of assets and liabilities that are not business combinations, which at the time of the transaction, affect neither reported nor taxable income. Nor are temporary differences attributable to participations in subsidiaries that are not expected to be reversed within the foreseeable future considered. The measurement of deferred tax is based on how underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated using those tax rates and tax rules that are enacted or substantively enacted on the reporting date.

Deferred tax assets relating to deductible temporary differences and loss carry-forwards are only recognised to the extent that it is likely that it will be possible to utilise them. The value of deferred tax assets is reduced when it is no longer considered probable that they can be utilised. Potential additional income tax arising from dividends is recognised at the same time as the dividend is reported as a liability.

### (p) Financial instruments

Financial instruments reported in the Statement of Financial Position include cash and cash equivalents, debt receivables, accounts receivable, financial investments and derivatives on the asset side. Accounts payable, loan liabilities and derivatives are reported on the liabilities side.

#### (i) Recognition and de-recognition in the Statement of Financial Position

A financial asset or financial liability is recognised in the Statement of Financial Position when the Company becomes party to the instrument's contracted terms. Accounts receivable are recognised in the Statement of Financial Position when the invoice has been sent. Liabilities are recognised when the counterparty has performed, and there is a contracted payment liability, even if no invoice has been received as yet. Accounts payable are recognised when invoices are received.

Financial assets are de-recognised from the Statement of Financial Position when the contracted rights are realised, mature, or the Company relinquishes control over them. The same applies to parts of a financial asset. A financial liability is de-recognised from the Statement of Financial Position when the contracted commitments are fulfilled or extinguished in some other way. The same applies to parts of a financial liability.

A financial asset and a financial liability are offset and reported at a net amount in the Statement of Financial Position only when a legal right to offset the amounts is present and the intention is to settle the items at a net amount or to simultaneously realise the asset and settle the liability.

Purchases and sales of financial assets are reported on the transaction date, which is the date the Company undertakes to buy or sell the asset.

#### (ii) Classification and measurement

Non-derivative financial instruments are initially recognised at cost corresponding to the fair value of the instrument plus transaction expenses for all financial instruments apart from those categorised as financial assets recognised at fair value via income, which are recognised at fair value excluding transaction expenses. On first reporting, a financial instrument is recorded on the basis of factors including the purpose of the acquisition of the instrument. The classification determines how the financial instrument is measured after first reporting, as stated below.

Initially, derivative instruments are recognised at fair value, meaning that transaction expenses are charged to income for the period. After initial recognition, the derivative instrument is reported as stated below. If the derivative instrument is used for hedge accounting, and to the extent this is effective, value changes on the derivative instrument are reported on the same line in net income as the hedged item. Even if hedge accounting is not applied, value increases and value decreases on the derivative are recognised as revenue and costs respectively in operating income, or in net financial income/expense based on the purpose of usage of the derivative instrument, and whether the usage relates to an operating item or a financial item. In hedge accounting, the ineffective part is reported in the same way as value changes on derivatives not used for hedge accounting. If hedge accounting is not applied when using interest swaps, the interest coupon is reported as interest and other value changes of the interest swap are reported as other financial income or other financial expense.

Cash and cash equivalents consist of cash funds and immediately available balances with banks and corresponding institutions, and short-term liquid investments with maturities of less than three months from acquisition date, which are exposed to only an insignificant risk of value fluctuations.

*Financial assets measured at fair value via profit or loss*

This category comprises two sub-categories: financial assets held for trading and other financial assets that the Company initially chose to classify in this category (according to the Fair Value Option). Financial instruments in this category are measured at fair value on an ongoing basis with value changes recognised in net income. Derivatives with a positive fair value are included in the first sub-category, apart from derivatives that are an identified and effective hedging instrument.

*Loans receivable and accounts receivable*

Loans receivable and accounts receivable are financial assets that are not derivatives with fixed payments or payments that can be determined, and that are not listed on a recognised marketplace. These assets are measured at amortised cost. Amortised cost is determined on the basis of effective interest calculated at acquisition date. Accounts receivable trade are reported at the amount expected to be received, i.e. after deducting for doubtful debt.

*Other financial liabilities*

Loans and other financial liabilities such as accounts payable—trade are included in this category. Liabilities are measured at amortised cost. The category in which financial assets and liabilities are classed is stated in Note 31. The reporting of financial income and costs is also considered under principle (n) above.

### (q) Derivatives and hedge accounting

The Group's derivative instruments have been acquired to financially hedge the risks of interest rate, raw materials and currency exposure the Group is exposed to. Embedded derivatives are disclosed separately if not closely related to the host contract. After initial recognition, derivatives are measured at fair value, implying that transaction expenses are charged to net income. After first reporting, derivative instruments are measured at fair value and value changes are reported as stated below.

To satisfy the requirements for hedge accounting in accordance with IAS 39, there must be a clear link to the hedged item. The hedge must also effectively protect the hedged item, hedging documentation must be prepared and its effectiveness must be measurable. Value changes on effective hedging instruments are recognised in other comprehensive income and accumulated in individual components in equity. However, if ineffectiveness occurs in the hedging relationship, the ineffective portion of the value change of the hedging instrument is reported directly to net income. Gains and losses from hedging are recognised in net income at the same time as gains and losses are recognised for the hedged items.

Hedge accounting is applied in the following segments:

- For currency derivatives used to hedge future payments denominated in foreign currency (hedging of cash flows)
- For raw materials and currency derivatives used for hedging purchases and sales of raw materials (hedging of cash flows)
- For interest swaps where variable interest in borrowings is converted to fixed interest (hedging of cash flows)
- For foreign net investments in subsidiaries where loans are used as hedging instruments and restated in other comprehensive income.

#### (i) Foreign currency receivables and liabilities

Currency forwards are used for hedging assets or liabilities against currency risk. Hedge accounting is not applied for hedging against currency risk because a financial hedge is reflected in reporting by the underlying receivable or liability and the hedging instrument being reported at the rate of exchange ruling on the reporting date and exchange rate fluctuations being recognised in net income. Exchange rate fluctuations on trading receivables and liabilities are recognised in operating income, while exchange rate fluctuations on financial receivables and liabilities are recognised in financial income/expenses.

#### (ii) Cash flow hedging of uncertainty and forecast foreign currency sales

The currency forwards used for hedging very likely forecast sales in foreign currency are reported in the Statement of Financial Position at fair value. Value changes in the period are recognised in other comprehensive income and accumulated value changes in a special component of shareholders' equity (the hedging provision) until the hedged flow affects net income, whereupon the accumulated value changes of the hedging instrument are reclassified as net income coincident with the hedged item (sales revenue) affecting net income.

(iii) Cash flow hedging interest risk
Interest swaps are used to hedge the uncertainty in very likely forecast interest flows for variable-interest borrowings, whereby the Company receives variable interest and pays fixed interest. Interest swaps are reported at fair value in the Statement of Financial Position. The interest coupon portion is reported on an ongoing basis in net income as part of interest expenses. Unrealised changes in the fair value of interest swaps are recognised in other comprehensive income and are included as a part of the hedging reserve until the hedged item affects net income and as long as the criteria for hedge accounting and effectiveness are satisfied.

(iv) Hedging of currency risk in foreign net investments
To some extent, investments in foreign subsidiaries (net assets including goodwill) have been hedged by raising foreign currency loans, which are translated on the reporting date using the rate of exchange ruling on the reporting date.

Translation differences for the period on financial instruments used as hedging instruments in a hedge of a net investment in a group company are recognised in other comprehensive income and the accumulated changes in a special component of shareholders' equity (the translation reserve) to the extent the hedge is effective. The aim is to neutralise the translation differences that affect other comprehensive income when group companies are consolidated.

(v) Hedging raw material risk and price risk on electricity
Hedging is effected with standard financial derivatives quoted daily on the London Metal Exchange (LME). For metals not quoted on the LME, hedging can be effected through physical fixed-fee contracts with suppliers. Price hedging on electricity is effected with standard forward contracts quoted on the Nordpool exchange. The value changes are recognised in other comprehensive income in the hedging provision until the hedged flow is realised, whereupon the accumulated value changes of the hedging instrument are transferred to the Income Statement, to meet and match the earnings effect of the hedged transaction. The hedged flows may be contracted and forecast transactions.

**(r) Property, plant and equipment**
(i) Owned assets
Property, plant and equipment are reported in the Group at cost after deducting for accumulated depreciation and potential impairment. The cost includes the purchase price and expenses directly attributable to the asset to bring it to the place and condition for use in accordance with the purpose of the acquisition. Examples of directly related expenses included in costs are expenses for delivery and processing, installation, registration, consulting and legal services. Borrowing costs directly related to purchasing, construction or production of an asset that require a significant time to complete for intended use or sale are included in cost. The accounting principles of impairment losses are stated below.

The cost of fixed assets produced by the Company includes expenditure for materials, expenditure for employee benefits, and if applicable, other production overheads considered directly attributable to the fixed asset, and estimated expenditure for the disassembly and removal of the assets, and restoration of the location or area where they were located. Property, plant and equipment that comprise components with differing useful lives are considered as separate components of property, plant and equipment.

The carrying amount of property, plant and equipment is derecognised from the Statement of Financial Position upon disposal or divestment, or where no future economic rewards are expected from the use or disposal/divestment of the asset. Gains or losses arising from the divestment or the disposal of an asset comprise the difference between the selling price and the asset's carrying amount less direct selling expenses. Gains and losses are recognised as other operating income/expense.

(ii) Leased assets
Leases are classified as either finance or operating leases. Finance leases occur when essentially, the economic risks and rewards associated with ownership are transferred to the lessee. When this is not the case, the arrangement is an operating lease.

Assets held through finance leases are reported as fixed assets in the Statement of Financial Position and are measured initially at the lower of the leased item's fair value and the present value of the minimum lease payments at the time of entering into the arrangement. The obligation to pay future lease charges is reported as long-term and current liabilities. Leased assets are depreciated over the relevant asset's useful life, while lease payments are reported as interest and amortisation of the liabilities. As a rule, assets held through operating leases are not reported as assets in the Statement of Financial Position. Nor do operating lease arrangements give rise to a liability.

Assets leased through finance lease arrangements are not reported as tangible assets because the risks associated with ownership are transferred to the lessee. Instead, a financial receivable is reported regarding the future minimum lease payments.

(iii) Additional expenditure
Additional expenditure is added to cost only if it is considered likely that the future economic rewards associated with the asset will accrue for the Company and the cost can be measured reliably. Any other additional expenditure is reported as a cost in the period it arises.

An additional expenditure item is added to cost if the expenditure relates to the change of identified components, or parts of them. In cases where a new component has been added, the expenditure is also added to the cost. Any un-depreciated carrying amounts of exchanged components, or parts of components, are disposed of and written off in connection with the exchange. Repairs are expensed as they arise.

(iv) Borrowing costs
Borrowing costs attributable to the construction of what are termed qualifying assets are capitalised as a part of the qualifying asset's cost. A qualifying asset is an asset that requires a significant time to complete of necessity. Firstly, borrowing costs are capitalised that arise on loans that are specific to the qualifying asset. Secondly, borrowing costs arising on general loans, that are not specific to any qualifying asset, are capitalised. Capitalisation of borrowing costs for the Group primarily relates to the Group's own construction of warehouse and production buildings, and furnaces.

(v) Depreciation principles
Depreciation is on a straight-line basis over the estimated useful life of an asset; land is not depreciated. Leased assets are also depreciated over estimated useful life, or if shorter, the contracted lease term. The Group utilises component depreciation, which means that the estimated useful lives of components are the basis for depreciation.

Estimated useful lives:

| | |
|---|---|
| • Buildings: real estate used in business operations | 20–33 years |
| • Machinery and other plant | 5–15 years |
| • Equipment, tools fixtures and fittings | 3–5 years |

Machinery and other plant comprises a number of components with differing useful lives mainly between 5 and 15 years. The majority of these components comprise operating units in production processes with an estimated useful life of 10 years. Annealing furnaces and tunnel kilns are considered as key assets, with useful lives assessed at 15–30 years. The residual value and useful life of an asset are estimated annually.

**(s) Intangible assets**
(i) Goodwill
Goodwill is measured at cost less potential accumulated impairment losses. Goodwill is allocated to cash-generating units and is subject to impairment tests at least annually (see accounting principles (u)).

For goodwill in acquisitions that occurred before 1 Jan. 2004, at the adoption of IFRS, the Group did not adopt IFRS retroactively, and the carrying amount reported as of that date will remain the Group's cost after impairment testing.

In business combinations, where acquisition cost is less than the net value of the acquired assets and liabilities taken over, and contingent liabilities, the difference is recognised directly in net income.

(ii) Research and development
Expenditure for research intended to secure new scientific or technical knowledge is expensed on an ongoing basis.

Expenditure for development, where research results or other knowledge are used to achieve new or improved products or processes, is reported as an asset in the Statement of Financial Position, if the product or process is technically and commercially usable and the Company has sufficient resources to complete development, and subsequently use or sell the intangible asset. The carrying amount includes all directly attributable expenditure, for example for materials, services, employee benefits, registration of a legal right, amortisation of patents, licenses and borrowing costs in accordance with IAS 23. Other expenditure for development is recognised in net income as an expense when it arises. Development expenditure is reported in the Statement of Financial Position at cost less accumulated depreciation and potential impairment losses.

A high proportion of Höganäs' development expenses relate to specific customer projects. Development projects are capitalised when it is considered very likely that they will give rise to future economic rewards. The timing of commencing depreciation starts when the product is complete and has been brought into general use.

The useful life for each project is estimated and determined by management, which in the normal case is around 5-10 years. The evaluation of each project's useful life and impairment are tested yearly. The year's capitalised expenditure for development was MSEK 32 (22) compared to the year's research and development expenses recognised in income of MSEK 169 (157).

(iii) Other intangible assets
Other intangible assets acquired by the Group are reported at cost less accumulated depreciation (see below) and impairment losses (see Accounting principles, (u)).

Incurred expenses for internally generated goodwill and internally generated brands are recognised in net income when the expense arises.

(iv) Additional expenditure
Additional expenditure for capitalised intangible assets is reported as an asset in the Statement of Financial Position only when it increases the future economic rewards for the specific asset to which it is attributable. All other expenditure is expensed as it arises.

(v) Borrowing costs
Borrowing costs attributable to the construction of what are termed qualifying assets are capitalised as a part of the qualifying asset's cost. A qualifying asset is an asset that requires a significant time to complete of necessity. Firstly, borrowing costs are capitalised that arise on loans that are specific to the qualifying asset. Secondly, borrowing costs arising on general loans, that are not specific to any qualifying asset, are capitalised. Capitalisation of borrowing costs for the Group primarily relates to capitalised development expenditure for developing new computer systems.

(vi) Amortisation principles
Amortisation is recognised in net income on a straight-line basis over the estimated useful lives of intangible assets, providing such useful lives are not indefinite. Goodwill and intangible assets with indefinite useful lives are subject to impairment tests annually, and moreover, as soon as there are indications that the asset's value is impaired. Amortisable intangible assets are amortised from the date when they become available for use.

Estimated useful lives:

- Patents and brands 10–20 years
- Capitalised development expenditure 5–10 years

Useful lives are tested every year.

(vii) Emission rights
The allocation of $CO_2$ emission rights for the year has been reported in the Statement of Financial Position as an intangible asset and deferred income, and measured at cost based on the first official quotation in the year. As emission rights are consumed, they are transferred from deferred income to other short-term provisions. For the reporting of consumed emission rights returned to the Swedish Energy Agency, the short-term provision and intangible asset are settled. At year-end, disposable emission rights are subject to an impairment test and reported at the lower of cost and market value. Potential divested emission rights are recognised in the 'other operating income' item.

**(t) Inventories**
Inventories are valued at the lower of cost and net selling price. The cost of inventories is calculated by using the FIFO (first in first out) method and includes expenditure arising at the acquisition of the inventory items, and their transportation to their current location and condition. The cost of produced goods and work in progress includes the cost of labour and a reasonable proportion of indirect expenses based on normal capacity.

The net selling price is the estimated selling price in operating activities, less estimated expenses for completing and achieving a sale. The cost of semi-finished and finished goods produced by the Company consists of direct production costs and a reasonable portion of indirect production costs. Measurement considers normal capacity utilisation.

**(u) Impairment losses**
The carrying amounts of the Group's assets are subject to impairment tests at each reporting date. IAS 36 is applied for impairment of assets other than financial assets, which are reported in accordance with IAS 39, inventories, plan assets used to finance employee benefits and deferred tax assets. For assets subject to the above exemption, valuations are tested in accordance with the relevant standard.

(i) Impairment of tangible and intangible assets
If there is an indication of impairment, the asset's recoverable value is measured (see below). Recoverable values of goodwill, other intangible assets with indefinite useful lives and intangible assets not yet ready for use are also calculated annually. If it is impossible to determine significant independent cash flows of an individual asset, and its value less selling expenses cannot be used, when conducting impairment tests, assets are grouped at the lowest level it is possible to determine significant independent cash flows, a cash-generating unit.

An impairment loss is reported when an asset's or cash-generating unit's (group of units) carrying amount exceeds recoverable value. An impairment loss is reported as an expense in net income. When impairment has been identified for a cash-generating unit (group of units), the impairment amount is allocated firstly to goodwill. Subsequently, a proportional impairment loss of other assets included in the unit (group of units) is taken.

The recoverable amount is the greater of fair value less selling expenses and value in use. When calculating the value in use, future cash flows are discounted at a discount factor that considers risk-free interest, and the risk associated with the specific asset.

(ii) Impairment of financial assets
The Company tests for objective evidence that a financial asset or group of assets is impaired at each reporting date. Objective evidence consists partly of observable circumstances that have occurred and that have a negative effect on the prospects of recovering the cost, and partly of significant or lasting reduction of the fair value of an investment in a financial asset classified as a financial asset held for sale.

The Company classifies accounts receivable as doubtful when they have become 60 days overdue for payment. The impairment of receivables is determined on the basis of historical experience of bad debt on similar receivables. Accounts receivable that are impaired are reported at the present value of expected future cash flows. However, receivables with short maturities are not discounted.

(iii) Reversal of impairment losses
Impairment of an asset lying within the area of application of IAS 36 is reversed if there is an indication that both the need for impairment no longer applies and the assumptions that form the basis of measuring the recoverable value have changed. However, goodwill impairment is never reversed. Reversals are only effected to the extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been reported, with a deduction for depreciation where relevant, if no impairment had been effected.

Impairment losses of loans receivable and accounts receivable reported at amortised cost are reversed if the previous reasons for impairment no longer apply and full payment from the customer is expected to be received.

**(v) Payments of capital to owners**
(i) Re-purchase of treasury shares
Acquisitions of treasury shares are reported as a reduction in shareholders' equity. Payment from the sale of such equity instruments is reported as an increase in shareholders' equity. Potential transaction expenses are reported directly in shareholders' equity.

(ii) Dividends
Dividends are reported as a liability after the AGM has approved the dividend.

**(x) Earnings per share**
Calculations of earnings per share are based on net income in the Group attributable to Parent Company shareholders, and on a weighted average number of outstanding shares in the year. When calculating diluted earnings per share income and the average number of shares is adjusted to consider the diluting effect of potential ordinary shares, which during reporting periods, stem from options issued to employees. Dilution from options only affects the number of shares and only arises when the exercise price is lower than the share price and is greater the larger the difference is between the exercise price and the share price. The exercise price is adjusted by supplementing the value of future services linked to the equity-settled staff stock option plan recognised as share-based payment in accordance with IFRS 2.

**(y) Employee benefits**
(i) Defined contribution plans
Plans where the Company's obligation is limited to the fees the Company incurs to pay are classified as defined contribution pension plans. In such case, the size of the employee's pension depends on the charges the Company deposits in the plan, or to the insurance company, and the return the charges achieve. Consequently, the employee bears the actuarial risk (that remuneration is lower than expected) and the investment risk (that the invested assets prove insufficient to generate the expected benefits). The Company's obligation for charges in defined contribution plans are reported as an expense in net income as they accrue through the employee rendering services to the Company for a period.

(ii) Defined benefit plans
Apart from in Sweden, Höganäs also has defined benefit plans in the US, Taiwan, Belgium, Germany, India and Italy. These defined benefit plans

are unit-linked and traditionally assured. When plans are unit linked, assets are separated, mainly in pension funds. These plan assets can only be used to pay remuneration in accordance with pension agreements.

The Group's net commitments regarding defined benefit plans are calculated separately for each plan by estimating the future benefits the employee would have accrued through his/her service in current and previous periods; these benefits are discounted to present value. The discount rate is the yield on the reporting date of an investment grade corporate bond with a maturity corresponding to the Group's pension obligations. When there is no recognised market for such corporate bonds, the market yield on housing bonds with a corresponding maturity is used instead. The calculation is conducted by a qualified actuary using the projected unit credit method. The fair value of potential plan assets is also measured at the reporting date.

When determining the present value of obligations and the fair value of plan assets, actuarial gains and losses may arise. They arise either through fair value differing from the previous assumptions, or through assumptions changing. For actuarial gains and losses, the corridor rule is applied.

This rule means that the portion of the accumulated actuarial gains and losses exceeding 10% of the greater of the present value of the commitments and the fair value of plan assets is reported over the expected average remaining length of service of those employees covered by the plan. Otherwise, actuarial gains and losses are not considered. In the Statement of Financial Position, the carrying amount of pensions and similar obligations correspond to the present value of the obligations at year-end, less a deduction for the fair value of plan assets, unreported actuarial gains or losses and unrecognised expenses relating to service rendered during previous periods.

When the calculation results in an asset for the Group, the carrying amount of the asset is limited to the net of the un-disclosed actuarial gains or losses, un-disclosed expenses for service in previous periods and the present value of future re-payments from the plan or reduced future contributions to the plan. When the benefits of a plan improve, the share of the increased benefits attributable to employee service in previous periods is reported as an expense in net income allocated on a straight-line basis over the average period until benefits are fully accrued. If benefits are fully accrued, the whole expense is reported directly in net income.

When there is a difference between how pension expenses are determined in a legal entity and the Group, a provision or receivable regarding the special employers' contribution based on this difference is reported. The present value of the provision or receivable is not calculated. All the constituent components of the expense for the period of a defined benefit plan are recognised in operating income.

#### (iii) Remuneration on termination

An expense for remuneration coincident with notices of redundancy issued to staff is only recognised if the Company has a proven obligation, without any realistic possibility of withdrawal, for a formal, detailed plan to conclude employment before the normal time. When remuneration is paid as an offer to encourage voluntary redundancy, an expense is recognised if it is likely that the offer will be accepted and the number of employees that will accept the offer can be reliably estimated.

#### (iv) Share-based payment

The AGM 2007 resolved on a stock option plan, which enables some employees and the CEO to acquire shares in the Company. The contracted terms of the staff stock option plan confer these employees with the opportunity to choose whether settlement will be in cash or through equity instruments, and thus the plan is reported in accordance with the rules for share-based payments that are settled in cash. The main terms and conditions of the plan are stated in Note 25.

The staff stock option plan gives rise to a commitment to employees, measured at fair value and reported as a personnel expense with a corresponding increase of liabilities. Fair value is initially calculated at the grant date and allocated over the vesting period. The commitment is re-valued at each reporting date from the time of settlement. Potential value changes are recognised in the Income Statement. The fair value of the cash-settled options is calculated using the Black-Scholes model, and considers the plan's terms and conditions that applied at the grant date. Social security expenses relating to equity instruments issued to employees as remuneration for purchased services are expensed, allocated over the periods when the services are rendered. The provision for social security expenses is based on the fair value of options at the reporting date. Fair value is calculated using the same valuation model as when the options were issued.

### (z) Provisions

A provision differs from other liabilities because of uncertainty prevailing regarding the timing of payment or the scale of the amount to settle the provision. A provision is reported in the Statement of Financial Position when there is an existing legal or informal commitment as a result of an event that has occurred, and it is likely that an outflow of economic resources will be necessary to settle the commitment and a reliable estimate of the amount can be made.

Provisions are made at an amount that is the best estimate of what is necessary to settle the existing commitment on the reporting date. When the effect of when in time payment occurs is significant, provisions are measured through discounting expected future cash flows using an interest rate before tax that reflects current market estimates of the time value of money, and if applicable, the risks associated with the liability.

#### (i) Emission rights

Used $CO_2$ emission rights are reported in short-term provisions in the Statement of Financial Position. A description of the accounting principles governing emission rights is stated in point (s) (vii).

#### (ii) Restoration of land

In accordance with the Group's published environmental principles and applicable legal standards, a provision for restoring landfill sites has been reported.

### (aa) Contingent liabilities

A contingent liability is reported when there is a possible commitment arising from events that have occurred, and whose incidence is confirmed only by one or more uncertain future events, or when there is a commitment that is not recognised as a liability or a provision because it is unlikely that an outflow of resources will be necessary.

### Parent Company accounting principles

The Parent Company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2 (Rådet för finansiell rapportering, the Swedish Financial Reporting Board), *Accounting for Legal Entities* (Sep. 2012). Statements made by RFR relating to listed companies are also applied. RFR 2 means that in its annual accounts for the legal entity, the Parent Company shall apply all the IFRS and statements endorsed by the EU, if this is possible within the framework of the Annual Accounts Act, the Swedish Pension Obligations Vesting Act (Tryggandelagen) and considering the relationship between accounting and taxation. The recommendation states the exemptions from, and supplements to, IFRS.

### Amended accounting principles

Unless stated otherwise below, the Parent Company's accounting principles in 2012 have been altered in accordance with what is stated above for the Group.

The accounting principles for group contributions were amended in 2012, implying that the group contributions received and made in the Parent Company Income Statement are now included in the item Appropriations. In 2011, net group contributions received of MSEK 490 were included in the participations in group companies item. Accordingly, comparative figures have been restated.

### Differences between the Group's and Parent Company's accounting principles

Differences between the Group's and the Parent Company's accounting principles are stated below. The accounting principles for the Parent Company stated below have been applied consistently for all periods presented in the Parent Company's financial statements.

#### (i) Classification and Presentation

The Parent Company uses the terms balance sheet and cash flow statement respectively for those reports, which in the Group, are entitled Statement of Financial Position and statement of cash flows. The Income Statement and Balance Sheet of the Parent Company are presented according to the format of the Swedish Annual Accounts Act, while the statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement are based on IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*, respectively. The differences with the Group's statements that apply to the Parent Company's Income Statement and Balance Sheet primarily relate to the recognition of financial income and expenses, fixed assets, shareholders' equity and the incidence of provisions as an independent heading in the Balance Sheet.

#### (ii) Subsidiaries

In the Parent Company, participations in subsidiaries are reported in accordance with acquisition accounting. This means that transaction expenditure is included in the carrying amount of participations in subsidiaries. In the consolidated accounts, transaction expenses are recognised directly in income as they arise.

Conditional purchase prices are measured on the likelihood that the purchase price will be payable. Potential changes of the conditional purchase price are added to/deducted from cost. In the consolidated accounts, conditional purchase prices are recognised at fair value with value changes recognised in income.

Bargain purchases that correspond to future expected losses and expenses are dissolved over the expected periods the losses and expenses arise. Bargain purchases that occur for other reasons are reported as a provision to the extent they do not exceed the fair value of purchased identifiable non-monetary assets. That portion that exceeds this value is recognised as revenue directly. That portion that does not exceed the fair value of purchased identifiable non-monetary assets is recognised systematically over a period estimated as the remaining weighted average useful life of the acquired identifiable assets that can be depreciated or amortised. In the consolidated accounts, bargain purchases are recognised directly in income.

(iii) Property, plant and equipment
In the Parent Company, property, plant and equipment are reported at cost less deductions for accumulated depreciation and potential impairment losses in the same manner as the Group but with a supplement for potential revaluations.

(iv) Leased assets
In the Parent Company, all leases are reported in accordance with the rules for operating leases.

(v) Research and development
In the Parent Company, all expenditure for development is reported as a cost in the Income Statement.

(vi) Employee benefits
*Defined benefit plans*
The Parent Company uses a different basis for calculating defined benefit plans than stipulated by IAS 19. The Parent Company follows the stipulations of the Swedish Pension Obligations Vesting Act (Tryggandelagen) and the Swedish Financial Supervisory Authority's instructions, because this is a prerequisite for tax deductions. The most significant differences compared to IAS 19 are determining the discount rate, calculating the defined benefit commitment on the basis of current salary levels without any assumptions of future pay increases, and that all actuarial gains and losses are reported in the Income Statement when they arise.

(vii) Tax
In the Parent Company, untaxed provisions are reported in the Balance Sheet without any division between shareholders' equity and deferred tax liability, unlike in the Group. Correspondingly, in the Income Statement of the Parent Company, there is no division of part of appropriations to deferred tax costs.

(viii) Group contributions and shareholders' contributions for legal entities
The Parent Company recognises all group contributions received and made in the Income Statement. They are included in the Appropriations line. Shareholders' contributions are reported directly against the recipient's shareholders' equity and are capitalised in shares and participations of the issuer, to the extent no impairment loss is necessary.

## Note 2 OPERATING SEGMENTS

The Group's operating activities are divided into operating segments based on what part of operating activities the Company's chief operating decision-maker is monitoring, known as the 'management approach.' The Group's operating activities are organised so that Group management monitors the results, returns and cash flow the Group's various goods generate. Because Group management monitors the results of operations and decides on the allocation of resources on the basis of the goods the Group manufactures and sells, these constitute the Group's operating segments.

The Group's internal reporting is structured so that Group management can monitor the performance and results of all goods. The Group's segments have been identified on the basis of this internal reporting. Segments' investments in property, plant and equipment and intangible assets include all investments apart from investments in expendable equipment and equipment of lesser value.

Internal pricing between the Group's various segments is determined on the basis of the principle of 'arm's length', that is between parties that are mutually independent, well-informed and with an interest in conducting the transactions.

The following operating segments have been identified:
- Components
- Consumables

Components consists of all the iron and metal powders refined into components. Components currently consists mainly of the market segment of pressed components. Development work is conducted in soft magnetic and injection moulded components. Soft magnetic components focuses on supporting the development of inductors and electric drive systems. Injection moulded components is the development of MIM technology, small, metal injection moulded components with complex geometries for usage in segments including the automotive industry, IT, mobile telephony, medical devices etc. The market value of pressed and sintered components is some SEK 15 billion, with an estimated yearly growth rate of 4-6%. Customers are component manufacturers, who in turn, deliver components via product or system manufacturers or directly to OEMs. Components represents some three-quarters of consolidated turnover.

Consumables consists of the sale of iron powders and high-alloy metal powders used in industrial processes such as surface coating, welding and brazing. Metal powder is also used in a series of other segments such as the chemical and metallurgical process industries for the purification of exhaust, soil and water, and as additives in food and animal feed. Development work is conducted in surface coating, brazing, filters and water treatment. Applications that are in development include surface coating of components for the agriculture, marine/offshore and glass industries, and brazing of heat exchangers and catalytic converters.

The market is fragmented with customers representing different sectors, which means that there is no overall market data. Iron and metal powders are often included as consumables in various processes, and accordingly, Consumables generally features shorter and less regular order intake over time. This also means that a high sales share is volume based. Sales are mainly to OEMs active in a number of different industries and sectors. Examples include brazing, surface coating, welding and the food and pharmaceutical industries. Consumables represents about a quarter of consolidated turnover.

Segment earnings, assets and liabilities include directly attributable items and items that can be allocated between segments in a reasonable and reliable manner. Non-allocated items comprise earnings from the sale of emission rights, financial income, financial expenses and tax expenses. Assets and liabilities that have not been allocated by segment are deferred tax assets, income taxes recoverable, deferred tax liabilities, interest-bearing liabilities and current tax liabilities.

The Group is active in the following geographical regions: Europe, America and Asia. America means North and South America. All geographical regions include operations conducted for Components and Consumables.

The information presented regarding the segment's income relates to the geographical regions grouped according to where customers are located. The Group has no single customer representing more than 10% of total revenues. Information regarding the segments' assets and investments in property, plant and equipment and intangible assets in the period are based on geographical regions grouped according to where the assets are located.

## cont. Note 2 OPERATING SEGMENTS

### OPERATING SEGMENTS

| GROUP | Components | | Consumables | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|
| MSEK | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Income** | | | | | | | | |
| External sales | 5,119 | 5,378 | 1,593 | 1,703 | | | 6,712 | 7,081 |
| Internal sales | 1,411 | 1,500 | 396 | 462 | -1,807 | -1,962 | - | - |
| **Total income** | **6,530** | **6,878** | **1,989** | **2,165** | **-1,807** | **-1,962** | **6,712** | **7,081** |
| **Operating income** | **680** | **766** | **223** | **305** | **-** | **-** | **903** | **1,071** |
| Financial income | | | | | | | 10 | 11 |
| Financial expenses | | | | | | | -45 | -58 |
| **Income before tax** | | | | | | | **868** | **1,024** |
| Tax | | | | | | | -170 | -262 |
| **Net income** | | | | | | | **698** | **762** |
| **Assets** | | | | | | | | |
| Assets | 4,542 | 4,708 | 1,148 | 1,129 | | | 5,690 | 5,837 |
| Unallocated assets | | | | | | | 45 | 99 |
| **Total assets** | | | | | | | **5,735** | **5,936** |
| **Liabilities** | | | | | | | | |
| Liabilities | 709 | 826 | 176 | 215 | | | 885 | 1,041 |
| Unallocated liabilities | | | | | | | 1,083 | 1,381 |
| **Total liabilities** | | | | | | | **1,968** | **2,422** |
| **Other information** | | | | | | | | |
| Investments | 334 | 356 | 106 | 110 | | | 440 | 466 |
| Depreciation/amortisation | -246 | -223 | -73 | -70 | | | -319 | -293 |
| Reversal of impairment | - | 8 | - | 3 | | | - | 11 |

**Reversal of impairment**
As a result of changed capacity utilisation, impairment of MSEK 0 (11) on an annealing furnace in Höganäs Sweden AB was reversed.

**Expenses for adapting staffing**
Höganäs' organisation was adapted to deteriorated market conditions in the fourth quarter of 2012. Expenses for adapting staffing totalling MSEK 44 were charged to operating income, of which Components MSEK 33 and Consumables MSEK 11.

### GEOGRAPHICAL REGIONS

| GROUP | Income from external customers | | Assets | | Fixed assets | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Sweden | 40 | 42 | 2,597 | 2,566 | 1,524 | 1,431 |
| Europe | 1,978 | 2,242 | 543 | 596 | 180 | 171 |
| America | 2,083 | 2,272 | 1,775 | 1,888 | 1,051 | 1,125 |
| Asia | 2,611 | 2,525 | 775 | 787 | 206 | 216 |
| **Total** | **6,712** | **7,081** | **5,690** | **5,837** | **2,961** | **2,943** |

## Note 3 OTHER OPERATING INCOME

### GROUP

| MSEK | 2012 | 2011 |
|---|---|---|
| Exchange gains on receivables/liabilities relating to operations | 0 | 3 |
| Capital gain on disposal of buildings and land | 0 | 1 |
| Capital gain on disposal of machinery and equipment | 3 | 0 |
| Sale of emission rights | 8 | - |
| Settlement of disputes | 1 | 6 |
| Government subsidy | 6 | 4 |
| Other | 2 | 1 |
| **Total** | **20** | **15** |

### PARENT COMPANY

| MSEK | 2012 | 2011 |
|---|---|---|
| Exchange gains on receivables/liabilities relating to operations | 1 | 1 |
| Government subsidy | 6 | 7 |
| Capital gain on disposal of buildings and land | 0 | 1 |
| **Total** | **7** | **9** |

## Note 4 OTHER OPERATING EXPENSES

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| MSEK | 2012 | 2011 | 2012 | 2011 |
| Exchange losses on receivables/liabilities relating to operations | 2 | - | 1 | 2 |
| Capital loss on disposal of machinery and equipment | 0 | 1 | - | - |
| Other | 2 | 1 | - | - |
| **Total** | **4** | **2** | **1** | **2** |

# Note 5 EMPLOYEES AND PERSONNEL EXPENSES

### Expenses for employee benefits

GROUP

| MSEK | 2012 | 2011 |
|---|---|---|
| Salaries and benefits, etc. | 737 | 677 |
| Pension costs, defined benefit plans (for more information, see Note 25) | 16 | 9 |
| Pension costs, defined contribution plans | 51 | 41 |
| Social security expenses | 248 | 229 |
| **Total** | **1,052** | **956** |

### Salaries, other benefits and social security expenses

PARENT COMPANY

| MSEK | 2012 | 2011 |
|---|---|---|
| Salaries and benefits | 110 | 100 |
| Social security expenses | 67 | 68 |
| (of which pension cost)* | (27) | (30) |
| **Total** | **177** | **168** |

* Of Parent Company pension costs, MSEK 2.5 (2.5) relates to the Board of Directors, CEO and SVP. The Company's outstanding pension obligations to these executives is MSEK 0.4 (0.4).

### Average no. of employees

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | | Of which men, % | | Of which men, % |
| *Parent Company in Sweden* | *176* | *76* | *169* | *78* |
| *Subsidiaries* | | | | |
| Sweden | 597 | 84 | 602 | 84 |
| Belgium | 160 | 91 | 148 | 90 |
| Brazil | 140 | 86 | 142 | 87 |
| France | 6 | 50 | 6 | 50 |
| India | 79 | 96 | 80 | 96 |
| Italy | 5 | 40 | 5 | 40 |
| Japan | 30 | 80 | 31 | 81 |
| China | 88 | 74 | 83 | 75 |
| Korea | 9 | 56 | 7 | 43 |
| Russia | 6 | 33 | 6 | 33 |
| Spain | 4 | 50 | 3 | 33 |
| UK | 32 | 81 | 32 | 81 |
| Taiwan | 8 | 38 | 8 | 38 |
| Germany | 15 | 67 | 13 | 62 |
| USA | 350 | 92 | 361 | 92 |
| **Total in subsidiaries** | **1,529** | **85** | **1,527** | **86** |
| **Group total** | **1,705** | **84** | **1,696** | **85** |

### Salaries and other benefits between Board members, etc. and other employees

| MSEK | 2012 | | 2011 | |
|---|---|---|---|---|
| | The Board, CEO & SVP | Other employees | The Board, CEO & SVP | Other employees |
| *Parent Company in Sweden* | *11* | *99* | *11* | *89* |
| (of which bonuses etc.) | (2) | (2) | (2) | (2) |
| **Parent Company total** | **11** | **99** | **11** | **89** |
| *Subsidiaries* | 25 | 602 | 20 | 557 |
| (of which bonuses etc.) | (4) | (1) | (1) | (1) |
| **Group total** | **36** | **701** | **31** | **646** |

Of the salaries and benefits paid to other employees of the Group, MSEK 7.5 (6.2) relates to senior managers other than the Board of Directors, CEO and SVP.

*Profit share system*

In order to increase employee interest in and commitment to Höganäs' operations, the Company introduced a group-wide profit share system in 2010, covering 1,656 (1,707) employees in fifteen countries at year-end 2012. This program runs for the period 2010-2012. Entitlement to profit sharing starts when the Group's income after tax exceeds MSEK 591 (468), and the full allocation is when income exceeds MSEK 827 (656). The maximum allocation in the Group for the profit share program 2012 is MSEK 41.3 (32.9). The provision for profit sharing for the year was MSEK 8.7 (32.9).

### Gender division of management, %

GROUP

| | 2012 | 2011 |
|---|---|---|
| | Share of women | Share of women |
| The Board | 1 | 1 |
| Other senior managers | 0 | 0 |

PARENT COMPANY

| | 2012 | 2011 |
|---|---|---|
| | Share of women | Share of women |
| The Board | 10 | 10 |
| Other senior managers | 0 | 0 |

## Note 6 AUDITORS ' FEES AND REIMBURSEMENT EXPENSES

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| MSEK | 2012 | 2011 | 2012 | 2011 |
| *KPMG* | | | | |
| Auditing | 5.0 | 4.9 | 0.9 | 0.8 |
| Auditing in addition to audit assignment | 0 | - | 0 | - |
| Tax consultancy | - | 0.9 | - | 0.7 |
| Other assignments | 0.9 | 0.4 | 0.8 | 0.4 |
| *Other auditors* | 0 | 0 | 0 | 0 |

Auditing means auditing of annual accounts and accounting records and the Board of Directors' and Chief Executive Officer's administration and other duties incumbent on the Company's auditors (including summary reviews of interim reports).

## Note 7 OPERATING EXPENSES BY COST TYPE

**Depreciation and cost of goods sold recognised in the Income Statement**

GROUP

| MSEK | Note | 2012 | 2011 |
|---|---|---|---|
| *Included in cost of goods sold* | | | |
| Amortisation of intangible assets | 11 | 21 | 21 |
| Depreciation of property, plant and equipment | 12 | 252 | 231 |
| Reversal of impairment on property, plant and equipment | 12 | - | -11 |
| Other expenses for goods production/consumption | | 4,789 | 5,062 |
| *Included in selling expenses* | | | |
| Amortisation of intangible assets | 11 | 4 | 3 |
| Depreciation of property, plant and equipment | 12 | 8 | 8 |
| *Included in administration expenses* | | | |
| Amortisation of intangible assets | 11 | 4 | 3 |
| Depreciation of property, plant and equipment | 12 | 13 | 11 |
| **Personnel expenses** | 5 | | |
| Salaries and benefits | | 737 | 677 |
| Social security expenses | | 248 | 229 |
| Pension costs | | 67 | 50 |
| **Total** | | **1,052** | **956** |

Research and development costs

The Consolidated Income Statement reports MSEK 169 (157) as research and development costs, of which amortisation comprises MSEK 17 (16). Direct production-related expenses in the form of amortisation of licences and capitalised development expenses of MSEK 21 (21) and selling expenses of MSEK 4 (3) respectively were charged to cost of goods sold.

# Note 8 NET FINANCIAL INCOME /EXPENSE

## GROUP

| MSEK | 2012 | 2011 |
|---|---|---|
| **Financial income** | | |
| Interest income attributable to assets measured at fair value in income | 5 | 6 |
| Interest income attributable to assets measured at amortised cost | 5 | 5 |
| **Total** | **10** | **11** |
| | | |
| **Financial expenses** | | |
| Interest expenses on loans measured at amortised cost | -34 | -30 |
| Interest expenses attributable to interest swaps | -6 | -7 |
| Net exchange rate differences | -5 | -20 |
| Other financial expenses | 0 | -1 |
| **Total** | **-45** | **-58** |
| **Net financial income/expense** | **-35** | **-47** |

## PARENT COMPANY

**Income from participations in Group companies**

| MSEK | 2012 | 2011 |
|---|---|---|
| Dividend | 123 | 131 |
| **Total** | **123** | **131** |

**Interest income and similar items**

| MSEK | 2012 | 2011 |
|---|---|---|
| Interest income, Group companies | 1 | 1 |
| Interest income, other | 6 | 6 |
| Value change, derivatives | 136 | 28 |
| Net exchange rate differences | 61 | - |
| **Total** | **204** | **35** |

**Interest expenses and similar items**

| MSEK | 2012 | 2011 |
|---|---|---|
| Interest expenses, Group companies | -14 | -9 |
| Interest expenses attributable to interest swaps | -6 | -7 |
| Interest expenses, other | -30 | -31 |
| Net exchange rate differences | - | -52 |
| **Total** | **-50** | **-99** |

# Note 9 TAX

## GROUP

| MSEK | 2012 | 2011 |
|---|---|---|
| **Current tax expense (-) /tax income (+)** | | |
| Tax expense for the period | -162 | -222 |
| Adjustment of tax attributable to previous year | 0 | 0 |
| **Total** | **-162** | **-222** |
| | | |
| **Deferred tax expense (-) /tax income (+)** | | |
| Deferred tax relating to temporary differences | -28 | -25 |
| Deferred tax due to altered tax rates | 34 | - |
| Deferred tax expense due to utilisation of previously capitalised taxable value of loss carry-forwards | -24 | -16 |
| Adjustment of deferred tax attributable to previous year | 1 | 1 |
| Deferred tax on revaluation of deferred tax receivables | 9 | - |
| **Total** | **-8** | **-40** |
| **Reported tax expense** | **-170** | **-262** |

## PARENT COMPANY

| MSEK | 2012 | 2011 |
|---|---|---|
| **Current tax expense (-) /tax income (+)** | | |
| Tax expense for the period | -70 | -89 |
| Adjustment of tax attributable to previous year | 1 | 0 |
| **Total** | **-69** | **-89** |
| | | |
| **Deferred tax expense (-) /tax income (+)** | | |
| Deferred tax relating to temporary differences | -26 | 23 |
| Deferred tax due to altered tax rate | 2 | - |
| **Total** | **-24** | **23** |
| **Reported tax expense** | **-93** | **-66** |

# cont. Note 9 TAX

**Reconciliation of effective tax**

GROUP

| MSEK | 2012 | | 2011 | |
|---|---|---|---|---|
| Income before tax | | 868 | | 1,024 |
| Tax at current tax rate for Parent Company | 26.3% | -228 | 26.3% | -269 |
| Effect of different tax rates for foreign subsidiaries | 4.0% | -35 | 4.2% | -43 |
| Non-deductible costs | 0.3% | -3 | 0.3% | -3 |
| Non-taxable income | -6.1% | 53 | -5.1% | 52 |
| Effect of altered tax rates | -3.9% | 34 | - | - |
| Revaluation of deferred tax | -1.0% | 9 | - | - |
| Tax attributable to previous year | - | - | -0.1% | 1 |
| **Reported effective tax** | **19.6%** | **-170** | **25.6%** | **-262** |

PARENT COMPANY

| MSEK | 2012 | | 2011 | |
|---|---|---|---|---|
| Income before tax | | 458 | | 354 |
| Tax at current tax rate for Parent Company | 26.3% | -120 | 26.3% | -93 |
| Non-deductible costs | 0.2% | -1 | 0.3% | -1 |
| Non-taxable income | -7.4% | 34 | -10.2% | 36 |
| Effect from amended tax rates | -0.5% | 2 | - | - |
| Tax attributable to previous year | -0.2% | 1 | - | - |
| Other taxes | 2.0% | -9 | 2.2% | -8 |
| **Reported effective tax** | **20.4%** | **-93** | **18.6%** | **-66** |

**Tax items reported in other comprehensive income**

GROUP

| MSEK | 2012 | 2011 |
|---|---|---|
| Current tax attributable to hedging currency risk in foreign operation | -15 | 8 |
| Deferred tax attributable to hedging currency risk in foreign operation | -16 | 7 |
| Deferred tax attributable to cash flow hedges | -26 | 39 |
| Deferred tax attributable to exchange rate differences | 0 | -13 |
| Current tax attributable to exchange rate differences | 3 | 6 |
| **Total** | **-54** | **47** |

PARENT COMPANY

| MSEK | 2012 | 2011 |
|---|---|---|
| Deferred tax attributable to hedging | -1 | -1 |
| **Total** | **-1** | **-1** |

# cont. Note 9 TAX

**Deferred tax assets and liabilities reported in the Statement of Financial Position**

| GROUP | Deferred tax asset | | Deferred tax liability | | Net | |
|---|---|---|---|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 |
| Intangible assets | - | - | 24 | 13 | -24 | -13 |
| Property, plant and equipment | - | - | 364 | 408 | -364 | -408 |
| Financial assets | - | - | 13 | 14 | -13 | -14 |
| Inventories | 15 | 17 | - | - | 15 | 17 |
| Accounts receivable | 1 | 3 | - | - | 1 | 3 |
| Pension provisions | 9 | 6 | - | - | 9 | 6 |
| Interest-bearing liabilities | - | - | 125 | 110 | -125 | -110 |
| Financial instruments | 4 | 17 | 15 | - | -11 | 17 |
| Tax allocation reserves | - | - | 17 | - | -17 | - |
| Other | 15 | 7 | - | - | 15 | 7 |
| Los carry-forwards | 128 | 160 | - | - | 128 | 160 |
| Tax assets/liabilities | 172 | 210 | 558 | 545 | -386 | -335 |
| Set-off | -140 | -175 | -140 | -175 | - | - |
| **Tax assets/liabilities, net** | **32** | **35** | **418** | **370** | **-386** | **-335** |

| PARENT COMPANY | Deferred tax asset | | Deferred tax liability | | Net | |
|---|---|---|---|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 |
| Financial instruments | - | 11 | 15 | - | -15 | 11 |
| Pension provisions | 5 | 4 | - | - | 5 | 4 |
| Tax assets/liabilities | 5 | 15 | 15 | - | -10 | 15 |
| Set-off | -5 | - | -5 | - | - | - |
| **Tax assets/liabilities, net** | **-** | **15** | **10** | **-** | **-10** | **15** |

**Unrecognised deferred tax assets**
Deductible loss carry-forwards for which deferred tax assets have not been reported in the Income Statement and Statement of Financial Position.

| GROUP | | |
|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
| Deductible deficits (State tax), USA | 15 | 25 |
| **Total** | **15** | **25** |

# cont. Note 9 TAX

Change in deferred tax in temporary differences and loss carry-forwards

## GROUP

| MSEK | Balance as of 1 Jan. 2011 | Reported in Income Statement | Reported in Other Comprehensive Income | Balance as of 31 Dec. 2011 |
|---|---|---|---|---|
| Intangible assets | -12 | -2 | 1 | -13 |
| Property, plant and equipment | -342 | -62 | -4 | -408 |
| Financial assets | -11 | -3 | - | -14 |
| Inventories | 14 | 3 | - | 17 |
| Accounts receivable | 4 | -1 | - | 3 |
| Pension provisions | 7 | -1 | - | 6 |
| Interest-bearing liabilities | -104 | - | -6 | -110 |
| Financial instruments | -25 | 3 | 39 | 17 |
| Other | 7 | -2 | 2 | 7 |
| Loss carry-forwards | 132 | 25 | 3 | 160 |
| **Total** | **-330** | **-40** | **35** | **-335** |

| MSEK | Balance as of 1 Jan. 2012 | Reported in Income Statement | Reported in Other Comprehensive Income | Acquisition of operation | Balance as of 31 Dec. 2012 |
|---|---|---|---|---|---|
| Intangible assets | -13 | -2 | 1 | -10 | -24 |
| Property, plant and equipment | -408 | 27 | 17 | - | -364 |
| Financial assets | -14 | 1 | - | - | -13 |
| Inventories | 17 | -2 | - | - | 15 |
| Accounts receivable | 3 | -2 | - | - | 1 |
| Pension provisions | 6 | 3 | - | - | 9 |
| Interest-bearing liabilities | -110 | - | -15 | - | -125 |
| Financial instruments | 17 | -1 | -27 | - | -11 |
| Tax allocation reserves | - | -17 | - | - | -17 |
| Other | 7 | 8 | - | - | 15 |
| Loss carry-forwards | 160 | -23 | -9 | - | 128 |
| **Total** | **-335** | **-8** | **-33** | **-10** | **-386** |

## PARENT COMPANY

| MSEK | Balance as of 1 Jan. 2011 | Reported in Income Statement | Reported in Other Comprehensive Income | Balance as of 31 Dec. 2011 |
|---|---|---|---|---|
| Financial instruments | -12 | 24 | -1 | 11 |
| Pension provisions | 4 | - | - | 4 |
| **Total** | **-8** | **24** | **-1** | **15** |

| MSEK | Balance as of 1 Jan. 2012 | Reported in Income Statement | Reported in Other Comprehensive Income | Balance as of 31 Dec. 2012 |
|---|---|---|---|---|
| Financial instruments | 11 | -25 | -1 | -15 |
| Pension provisions | 4 | 1 | - | 5 |
| **Total** | **15** | **-24** | **-1** | **-10** |

## Note 10 APPROPRIATIONS

### PARENT COMPANY

| MSEK | 2012 | 2011 |
|---|---|---|
| Difference between reported depreciation and depreciation according to plan: | | |
| Buildings and land | 2 | 1 |
| Machinery and other technical installations | -12 | -4 |
| Tax allocation reserve, provision for the year | -78 | - |
| Group contributions received | 574 | 558 |
| Group contributions paid | -76 | -68 |
| **Total** | **410** | **487** |

## Note 11 INTANGIBLE ASSETS

### GROUP

| MSEK | Goodwill | Capitalised development expenses | Patents and similar rights | Advances, intangible assets | Total |
|---|---|---|---|---|---|
| **Cumulative cost** | | | | | |
| Opening balance, 1 Jan. 2011 | 124 | 47 | 263 | 23 | 457 |
| Investments | - | - | 40 | 42 | 82 |
| Sales and disposals | - | - | -44 | - | -44 |
| Other changes | - | 3 | 20 | -23 | - |
| Exchange rate differences for the year | -2 | 0 | 1 | - | -1 |
| Closing balance, 31 Dec. 2011 | 122 | 50 | 280 | 42 | 494 |
| Opening balance, 1 Jan. 2012 | 122 | 50 | 280 | 42 | 494 |
| Investments | - | - | 64 | 48 | 112 |
| Sales and disposals | - | - | -44 | -2 | -46 |
| Other changes | - | 6 | 20 | -24 | 2 |
| Exchange rate differences for the year | -6 | 1 | -8 | 0 | -13 |
| Closing balance, 31 Dec. 2012 | 116 | 57 | 312 | 64 | 549 |
| **Accumulated amortisation and impairment losses** | | | | | |
| Opening balance, 1 Jan. 2011 | -33 | -30 | -97 | - | -160 |
| Amortisation for the year | - | -6 | -27 | - | -33 |
| Exchange rate differences for the year | 0 | 0 | 0 | - | 0 |
| Closing balance, 31 Dec. 2011 | -33 | -36 | -124 | - | -193 |
| Opening balance, 1 Jan. 2012 | -33 | -36 | -124 | - | -193 |
| Amortisation for the year | - | -6 | -29 | - | -35 |
| Exchange rate differences for the year | 1 | -1 | 5 | - | 5 |
| Closing balance, 31 Dec. 2012 | -32 | -43 | -148 | - | -223 |
| **Carrying amounts** | | | | | |
| As of 1 Jan. 2011 | 91 | 17 | 166 | 23 | 297 |
| As of 31 Dec. 2011 | 89 | 14 | 156 | 42 | 301 |
| As of 1 Jan. 2012 | 89 | 14 | 156 | 42 | 301 |
| As of 31 Dec. 2012 | 84 | 14 | 164 | 64 | 326 |

## cont. Note 11 INTANGIBLE ASSETS

**Impairment tests of intangible assets**
Impairment tests are conducted yearly for goodwill and other intangible assets that are not yet ready for use. The impairment test proceeds from the lowest level where the Company internally allocates and monitors goodwill.

| Goodwill | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Höganäs Belgium S.A. | 4 | 4 |
| North American Höganäs, Inc. | 5 | 5 |
| North American Höganäs High Alloys LLC | 48 | 52 |
| Höganäs Brasil Ltda | 10 | 10 |
| Höganäs India Pvt Ltd | 17 | 18 |
| **Total** | **84** | **89** |

For each cash-generating unit, recoverable amounts are determined on the basis of measurements of value in use. These measurements are based on an internal forecast over the next five years, based on the Company's annually updated strategic plan, and thereafter, an assumed growth rate of between 2 and 6% per year for the different cash-generating units, based on the conditions applying on each market, for the following 15 years. Expected future cash flows according to these forecasts are the basis of measurement. In this context, the requirement for capital investment for retained capacity is also considered. A weighted average cost of capital (WACC) has been applied to each cash-generating unit proceeding from local market conditions for calculating the present value of future cash flows. Essentially, the change in the discount rate for the year largely relates to the two units in Belgium and Brazil, where the forecast and estimated market conditions have been adapted to a downgraded short-term macroeconomic forecast, which has affected cash flow. The estimated cost of capital for other units is on a par with the previous year and no significant changes have been made to the forecast.

| Discount rate (before tax), % | 2012 | 2011 |
|---|---|---|
| *Cash-generating units* | | |
| Höganäs Belgium S.A. | 12.3 | 9.3 |
| North American Höganäs, Inc. | 11.7 | 12.3 |
| North American Höganäs High Alloys LLC | 11.8 | 12.4 |
| Höganäs Brasil Ltda | 13.5 | 11.3 |
| Höganäs India Pvt Ltd | 19.3 | 19.5 |

*Other assumptions and comments*
Höganäs considers that the weaker macroeconomic conditions that prevailed in 2012, and which have primarily affected the units in India and Europe, are of a short-term nature. Höganäs anticipates gradual recovery subsequently.

Average growth for units of the Group of 6-8% are assumed for the next five years. These assumptions are unchanged on the previous year. The underlying long-term demand situation appears to remain strong in South America and Asia, and the growth rate for these units is estimated to lie towards the higher end of the average estimate.

The long-term growth rate in India is expected to increase and the estimate is in line with last year's assumption which is slightly above the average growth rate for the Group as the market is relatively young in this region. The growth rate for the units located in Europe and Japan are somewhat lower, and are essentially unchanged on the previous year's assumptions. For the North American units, a somewhat improved growth rate is assumed, in line with the previous year, as a consequence of the recovery of the car industry. Good market growth is assumed mainly in South America and Asia, apart from Japan.

Raw materials prices have been judged on current price levels.

The forecast of personnel expenses is based on expected inflation, some real pay increases and planned rationalisations.

Management judges that reasonable changes to the material assumptions would not have such major effects that they would individually imply the recoverable amount being of a value less than the carrying amount for each cash-generating unit.

**Government and EU-funded research and development projects**
Government and EU-funded support in the Group was MSEK 6 (7) for the year, of which MSEK 0 (3) was recognised in the Balance Sheet. These items include EU-funded projects addressing new methods for producing sustainable energy. The common feature of the technologies in development is that they use metallic components with some gas permeability. The challenge is to achieve controlled gas permeability in components, simultaneous with them exhibiting strength and corrosion resistance at high temperatures. Höganäs' contribution to these projects is to develop metal powder and techniques for producing these porous and gas-permeable components.

The EU-funded project known as "AQUAREHAB" entered its final phase in the year. This project has been conducted with research institutions, universities, European regional bodies, environmental organisations and businesses over four years with the aim of decontaminating land from pollutants such as chlorinated hydrocarbons. An effective method has been produced, which is based on adding iron-based metal powder to soil, which breaks down chemical pollutants. A large-scale field test in an area polluted with chlorinated hydrocarbons is currently ongoing. In this field test, soil is mixed with the new iron powder with strong decomposing characteristics.

Through group company Digital Metal AB, Höganäs is also participating in an EU-funded project in the 3D printing segment, focusing on a highly-efficient production technology for the batch production of high-quality, customer-specific metal products.

## cont. Note 11 INTANGIBLE ASSETS

### PARENT COMPANY

| MSEK | Goodwill | Capitalised development expenses | Patents and similar rights | Advances, intangible assets | Total |
|---|---|---|---|---|---|
| **Cumulative cost** | | | | | |
| Opening balance, 1 Jan. 2011 | - | - | 96 | 4 | 100 |
| Investments | - | - | - | 20 | 20 |
| Other changes | - | - | 20 | -20 | - |
| Closing balance, 31 Dec. 2011 | - | - | 116 | 4 | 120 |
| | | | | | |
| Opening balance, 1 Jan. 2012 | - | - | 116 | 4 | 120 |
| Investments | - | - | 3 | 8 | 11 |
| Other changes | - | - | 12 | -10 | 2 |
| Closing balance, 31 Dec. 2012 | - | - | 131 | 2 | 133 |
| | | | | | |
| **Accumulated amortisation** | | | | | |
| Opening balance, 1 Jan. 2011 | - | - | -23 | - | -23 |
| Amortisation for the year | - | - | -22 | - | -22 |
| Closing balance, 31 Dec. 2011 | - | - | -45 | - | -45 |
| | | | | | |
| Opening balance, 1 Jan. 2012 | - | - | -45 | - | -45 |
| Amortisation for the year | - | - | -23 | - | -23 |
| Closing balance, 31 Dec. 2012 | - | - | -68 | - | -68 |
| | | | | | |
| **Carrying amounts** | | | | | |
| As of 1 Jan. 2011 | - | - | 73 | 4 | 77 |
| As of 31 Dec. 2011 | - | - | 71 | 4 | 75 |
| | | | | | |
| As of 1 Jan. 2012 | - | - | 71 | 4 | 75 |
| As of 31 Dec. 2012 | - | - | 63 | 2 | 65 |

**Amortisation and impairment are allocated to the following lines in the Income Statement**

### PARENT COMPANY

| | Amortisation | | Impairment | |
|---|---|---|---|---|
| MSEK | 2012 | 2011 | 2012 | 2011 |
| Selling expenses | 0 | 0 | - | - |
| Administration expenses | 21 | 21 | - | - |
| Research and development costs | 2 | 1 | - | - |
| **Total** | **23** | **22** | **-** | **-** |

# Note 12 PROPERTY, PLANT AND EQUIPMENT

## GROUP

| MSEK | Buildings and land | Machinery and other technical installations | Equipment, tools, fixtures and fittings | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cumulative cost** | | | | | |
| Opening balance, 1 Jan. 2011 | 1,203 | 3,792 | 285 | 200 | 5,480 |
| Investments | 4 | 60 | 2 | 382 | 448 |
| Sales and disposals | -8 | -69 | -11 | - | -88 |
| Other changes | 23 | 176 | 22 | -221 | - |
| Exchange rate differences for the year | 3 | 1 | 1 | 10 | 15 |
| Closing balance, 31 Dec. 2011 | 1,225 | 3,960 | 299 | 371 | 5,855 |
| Opening balance, 1 Jan. 2012 | 1,225 | 3,960 | 299 | 371 | 5,855 |
| Investments | 0 | 29 | 3 | 359 | 391 |
| Sales and disposals | -1 | -98 | -16 | - | -115 |
| Other changes | 69 | 361 | 42 | -474 | -2 |
| Exchange rate differences for the year | -47 | -103 | -9 | -23 | -182 |
| Closing balance, 31 Dec. 2012 | 1,246 | 4,149 | 319 | 233 | 5,947 |
| **Accumulated depreciation** | | | | | |
| Opening balance, 1 Jan. 2011 | -474 | -2,370 | -201 | - | -3,045 |
| Sales and disposals | 8 | 51 | 9 | - | 68 |
| Depreciation for the year | -35 | -212 | -13 | - | -260 |
| Exchange rate differences for the year | -4 | -7 | - | - | -11 |
| Closing balance, 31 Dec. 2011 | -505 | -2,538 | -205 | - | -3,248 |
| Opening balance, 1 Jan. 2012 | -505 | -2,538 | -205 | - | -3,248 |
| Sales and disposals | 1 | 83 | 16 | - | 100 |
| Depreciation for the year | -37 | -229 | -18 | - | -284 |
| Exchange rate differences for the year | 15 | 61 | 5 | - | 81 |
| Closing balance, 31 Dec. 2012 | -526 | -2,623 | -202 | - | -3,351 |
| **Accumulated impairment losses** | | | | | |
| Opening balance, 1 Jan. 2011 | -6 | -55 | - | - | -61 |
| Reversal of impairment | - | 11 | - | - | 11 |
| Exchange rate differences for the year | 0 | -1 | - | - | -1 |
| Closing balance, 31 Dec. 2011 | -6 | -45 | - | - | -51 |
| Opening balance, 1 Jan. 2012 | -6 | -45 | - | - | -51 |
| Exchange rate differences for the year | 0 | 1 | - | - | 1 |
| Closing balance, 31 Dec. 2012 | -6 | -44 | - | - | -50 |
| **Carrying amounts** | | | | | |
| As of 1 Jan. 2011 | 723 | 1,367 | 84 | 200 | 2,374 |
| As of 31 Dec. 2011 | 714 | 1,377 | 94 | 371 | 2,556 |
| As of 1 Jan. 2012 | 714 | 1,377 | 94 | 371 | 2,556 |
| As of 31 Dec. 2012 | 714 | 1,482 | 117 | 233 | 2,546 |

**Reversal of impairment**
Due to adjusted cash flow forecasts towards the end of 2011, the Group reversed impairments relating to an annealing furnace in Höganäs Sweden AB. The reversal of MSEK 11 is included in 'cost of goods sold.'

**Finance leases**
At the end of 2012, the carrying amount of the leased assets amounted to MSEK 34 (40).
Höganäs mainly leases a fleet of forklift trucks of MSEK 16 (20) in Sweden, and a nitrogen gas plant of MSEK 8 (10) in the US. Other finance leases relate mainly to cars. The variable charges do not amount to material sums. The leased assets are associated with limitations to rights of ownership.

## cont. Note 12 PROPERTY, PLANT AND EQUIPMENT

### PARENT COMPANY

| MSEK | Buildings and land | Machinery and other technical installations | Equipment, tools, fixtures and fittings | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cumulative cost** | | | | | |
| Opening balance, 1 Jan. 2011 | 32 | 95 | 40 | 19 | 186 |
| Investments | - | - | - | 30 | 30 |
| Sales and disposals | 0 | -1 | -2 | - | -3 |
| Other changes | - | 17 | 1 | -18 | - |
| Closing balance, 31 Dec. 2011 | 32 | 111 | 39 | 31 | 213 |
| Opening balance, 1 Jan. 2012 | 32 | 111 | 39 | 31 | 213 |
| Investments | - | 0 | - | 48 | 48 |
| Sales and disposals | 0 | 0 | -13 | -9 | -22 |
| Other changes | 1 | 17 | 6 | -26 | -2 |
| Closing balance, 31 Dec. 2012 | 33 | 128 | 32 | 44 | 237 |
| **Accumulated depreciation** | | | | | |
| Opening balance, 1 Jan. 2011 | -21 | -47 | -34 | - | -102 |
| Depreciation for the year | -1 | -8 | -1 | - | -10 |
| Sales and disposals | 0 | 1 | 2 | - | 3 |
| Closing balance, 31 Dec. 2011 | -22 | -54 | -33 | - | -109 |
| Opening balance, 1 Jan. 2012 | -22 | -54 | -33 | - | -109 |
| Depreciation for the year | -1 | -9 | -2 | - | -12 |
| Sales and disposals | 0 | 0 | 13 | - | 13 |
| Closing balance, 31 Dec. 2012 | -23 | -63 | -22 | - | -108 |
| **Carrying amounts** | | | | | |
| As of 1 Jan. 2011 | 11 | 48 | 6 | 19 | 84 |
| As of 31 Dec. 2011 | 10 | 57 | 6 | 31 | 104 |
| As of 1 Jan. 2012 | 10 | 57 | 6 | 31 | 104 |
| As of 31 Dec. 2012 | 10 | 65 | 10 | 44 | 129 |

## cont. Note 12 PROPERTY, PLANT AND EQUIPMENT

**Depreciation and impairment losses are allocated to the following lines of the Income Statement**

| PARENT COMPANY | Depreciation | | Impairment | |
|---|---|---|---|---|
| MSEK | 2012 | 2011 | 2012 | 2011 |
| Selling expenses | 1 | 0 | - | - |
| Administrative expenses | 2 | 3 | - | - |
| Research and development costs | 9 | 7 | - | - |
| **Total** | **12** | **10** | **-** | **-** |

**Information on government support to the Group/Parent Company**
In 2005, Höganäs entered an agreement to supply heating to Höganäs Fjärrvärme AB (district heating) for the period 2006 - 2025. Höganäs AB was initially required to make an investment to be able to connect to Höganäs Fjärrvärme's network. For this purpose, the Parent Company received a MSEK 25 subsidy from the Municipality of Höganäs to cover the investment.

In 2008, a supplementary agreement was signed to extend delivery capacity of excess heat. To deliver on this extension, Höganäs AB conducted an expansion investment, partly funded by Höganäs Fjärrvärme AB, by paying a connection charge of MSEK 14. This investment was completed in 2009. In tandem with the intragroup transfer of assets and liabilities in 2010, the part-funded equipment and associated support was transferred from Höganäs AB to Höganäs Sweden AB.

The recognised deferred income at the end of the year for government subsidies received corresponds to 72% of the cost of the assets the support is intended to cover. The deferred subsidy is recognised as revenue as the contract term continues, and is recognised in the other operating income item.

## Note 13 OPERATING LEASES

**Leases where the Company is lessee**

Irrevocable lease payments amount to:

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| MSEK | 2012 | 2011 | 2012 | 2011 |
| Within one year | 15 | 12 | 1 | 1 |
| Between one and five years | 26 | 27 | 1 | 1 |
| Later than five years | 4 | 8 | - | - |
| **Total** | **45** | **47** | **2** | **2** |

Lease costs for assets held through operating leases are rented property, machinery and major computer and office equipment and are reported under operating expenses, and amount to MSEK 16 (13) for the Group and MSEK 1 (1) for the Parent Company. The constituent variable payments are not significant amounts. Operating leases do not have indexation clauses or such terms as assign the right to extend or acquire the leased items. However, limitations apply to rights of disposal.

# Note 14 GROUP COMPANIES

## PARENT COMPANY

| Holding in subsidiaries | Subsidiary registered office, country | Participating interest, % 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|---|
| Höganäs Hamnbyggnads AB, 556000-8301 | Höganäs, Sweden | 94 | 94 |
| Höganäs Sweden AB, 556204-9691 | Höganäs, Sweden | 100 | 100 |
| Höganäs Saltglaserat AB, 556054-5922 | Höganäs, Sweden | 100 | 100 |
| Höganäs HOGAP AB, 556324-0760 | Höganäs, Sweden | 100 | 100 |
| Digital Metal AB, 556603-4152 | Höganäs, Sweden | 100 | - |
| Höganäs Belgium S.A. | Ath, Belgium | 100 | 100 |
| Höganäs (GB) Ltd | Kent, UK | 100 | 100 |
| Höganäs Japan K.K. | Tokyo, Japan | 100 | 100 |
| Höganäs France S.A.S. | Villefranche, France | 100 | 100 |
| Höganäs GmbH | Düsseldorf, Germany | 100 | 100 |
| Höganäs Italia S.r.l. | Rapallo, Italy | 100 | 100 |
| Höganäs India Pvt Ltd | Pune, India | 100 | 100 |
| Höganäs East Europe LLC | S:t Petersburg, Russia | 100 | 100 |
| Höganäs Ibérica S.A. | Madrid, Spain | 100 | 100 |
| Höganäs Taiwan Ltd | Taipei, Taiwan | 100 | 100 |
| Höganäs Korea Ltd | Seoul, Korea | 100 | 100 |
| Höganäs Korea Production Ltd | Busan, Korea | 100 | - |
| Höganäs (China) Co., Ltd | Shanghai, China | 100 | 100 |
| North American Höganäs Holdings, Inc. | Hollsopple, USA | 100 | 100 |
| North American Höganäs, Inc | Hollsopple, USA | 100 | 100 |
| NAH Financial Services, Inc. | Wilmington, USA | 100 | 100 |
| North American Höganäs High Alloys LLC | Hollsopple, USA | 100 | 100 |
| NAH Finance Holding AB, 556662-4572 | Höganäs, Sweden | 100 | 100 |
| KHTech Inc. | Wilmington, USA | 67 | 67 |
| Höganäs Brasil Ltda | Mogi das Cruzes, Brazil | 100 | 100 |

## PARENT COMPANY

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| **Cumulative cost** | | |
| Opening balance | 3,647 | 3,498 |
| Acquisition Digital Metal AB | 30 | - |
| Capital contribution, Höganäs Korea Production Ltd | 29 | - |
| Capital contribution, Höganäs Belgium S.A. | - | 148 |
| Capital contribution, Höganäs East Europe LLC | 0 | 1 |
| Closing balance | 3,706 | 3,647 |
| **Cumulative impairment losses** | | |
| Opening balance | -86 | -86 |
| Closing balance | -86 | -86 |
| **Carrying amount** | **3,620** | **3,561** |

## cont. Note 14 GROUP COMPANIES

| PARENT COMPANY<br>MSEK | No. of shares | Share of equity, % | Carrying amount<br>31 Dec. 2012 | Carrying amount<br>31 Dec. 2011 |
|---|---|---|---|---|
| Höganäs Hamnbyggnads AB | 4,240 | 94 | 1 | 1 |
| Höganäs Sweden AB | 24,000 | 100 | 2 | 2 |
| Höganäs Saltglaserat AB | 1,000 | 100 | - | - |
| Höganäs HOGAP AB | 1,100 | 100 | - | - |
| Digital Metal AB | 1,228,896 | 100 | 30 | - |
| Höganäs Belgium S.A. | 20,000 | 100 | 2,384 | 2,384 |
| Höganäs (GB) Ltd | 139,999 | 100 | 315 | 315 |
| Höganäs Japan K.K. | 6,000 | 100 | 15 | 15 |
| Höganäs France S.A. | 700 | 100 | 2 | 2 |
| Höganäs GmbH | 100 | 100 | - | - |
| Höganäs Italia S.r.l. | 60,000 | 100 | - | - |
| Höganäs India Pvt Ltd | 5,242,558 | 100 | 72 | 72 |
| Höganäs East Europe LLC | 1 | 100 | 5 | 5 |
| Höganäs Ibérica S.A. | 4,000 | 100 | - | - |
| Höganäs Taiwan Ltd | 5,000 | 100 | 1 | 1 |
| Höganäs Korea Ltd | 40,000 | 100 | 2 | 2 |
| Höganäs Korea Production Ltd | 920,000 | 100 | 29 | - |
| Höganäs (China) Co., Ltd | - | 100 | 100 | 100 |
| North American Höganäs Holdings, Inc. | 1,000 | 100 | 580 | 580 |
| Höganäs Brasil Ltda | 18,170,000 | 100 | 82 | 82 |
| **Total** | | | **3,620** | **3,561** |

## Note 15 RECEIVABLES FROM GROUP COMPANIES

### PARENT COMPANY

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Opening balance | 259 | 235 |
| Additional receivables | 41 | 24 |
| Settled receivables | -1 | -1 |
| Exchange rate differences for the year | -2 | 1 |
| **Closing balance** | **297** | **259** |

## Note 16 OTHER LONG-TERM RECEIVABLES

### GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Plan assets, pensions | 68 | 63 |
| Deposit | 18 | 19 |
| Derivatives held for hedging | - | 2 |
| Other | 3 | 4 |
| **Closing balance** | **89** | **88** |

### PARENT COMPANY

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Opening balance | 6 | 7 |
| Additional receivables | 0 | 3 |
| Settled receivables | -3 | - |
| Re-classification | - | -2 |
| Change in fair value | 0 | -2 |
| **Closing balance** | **3** | **6** |

Of the Parent Company's long-term receivables, MSEK 0 (2) are derivatives that are held for hedging.

## Note 17 INVENTORIES

GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Raw materials and consumables | 482 | 594 |
| Products in process | 412 | 402 |
| Finished goods and goods for resale | 670 | 705 |
| **Total** | **1,564** | **1,701** |

In the year, impairment of inventories had a positive effect on income due to the reversal of previous years' impairment, and amount to MSEK 1 (8) for the Group. The impairment of inventories for the year amount to MSEK -4 (-13) for the Group. Impairment and reversal are based on an individual assessment of the quality and age of the items.

## Note 18 ACCOUNTS RECEIVABLE/CREDIT RISK

**Credit risk**

Credit risk can be divided into a commercial and a financial counterparty risk. The commercial counterparty risk is the risk that the Group's customers become insolvent, and that sales forecasts or hedged flows cannot be realised.

To some extent, Höganäs' credit risk for customers is limited by sales being conducted in a high number of countries and to a large customer base, thus diversification of risk is achieved. Höganäs has credit insurance of MUSD 9 (9) intended to reduce credit risk from customers in the US. Höganäs also uses export letters of credit when selling on certain markets.

At the reporting date, the single biggest credit exposure was MSEK 55 (52). To further limit credit risk, the Group's credit policy stipulates that all sales to new customers must be preceded by credit checks. Bad debt was MSEK 1 (3), which is 0.01% (0.04) of consolidated net sales.

Financial counterparty risk is the risk of a counterparty the Höganäs has entered an agreement with becoming insolvent and an investment and/or an unrealised gain not being re-paid.

**Age analysis, overdue, unimpaired accounts receivable**

GROUP

| MSEK | 31 Dec. 2012 | |
|---|---|---|
| | Carrying amount unimpaired receivable | Collateral |
| Non-overdue accounts receivable | 674 | 37 |
| Overdue accounts receivable 0–30 days | 109 | 20 |
| Overdue accounts receivable > 30–90 days | 28 | 2 |
| Overdue accounts receivable > 90–180 days | 13 | - |
| Overdue accounts receivable > 180–360 days | 2 | - |
| Overdue receivables > 360 days | 0 | - |
| **Total** | **826** | **59** |

| MSEK | 31 Dec. 2011 | |
|---|---|---|
| | Carrying amount unimpaired receivable | Collateral |
| Non-overdue accounts receivable | 744 | 5 |
| Overdue accounts receivable 0–30 days | 150 | 53 |
| Overdue accounts receivable > 30–90 days | 36 | 3 |
| Overdue accounts receivable > 90–180 days | 4 | - |
| Overdue accounts receivable > 180–360 days | 0 | - |
| Overdue receivables > 360 days | 0 | - |
| **Total** | **934** | **61** |

Accounts receivable are reported considering the bad debt arising in the year. The provision for doubtful debts for the Group was MSEK 8 (14) at year-end.

# cont. Note 18 ACCOUNTS RECEIVABLE/CREDIT RISK

**Concentration of credit risk in accounts receivable**

GROUP

| 31 Dec. 2012 | No. of customers | % of total number of customers | % share of value |
|---|---|---|---|
| Exposure < 1 MSEK | 862 | 87 | 15 |
| Exposure 1–50 MSEK | 125 | 13 | 72 |
| Exposure > 50 MSEK | 2 | 0 | 13 |
| **Total** | **989** | **100** | **100** |

Höganäs judges that the credit quality of financial assets that have neither become overdue for payment nor are subject to impairment is high and that there is no need for impairment losses.

**Provision account, bad debt**

| | GROUP | |
|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
| Opening balance | 14 | 15 |
| Reversal of previous impairment | -6 | -5 |
| Impairment loss for the year | 0 | 4 |
| **Closing balance** | **8** | **14** |

# Note 19 PREPAID EXPENSES AND ACCRUED INCOME

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 |
| Prepaid interest expense | 1 | 2 | - | 8 |
| Prepaid insurance premiums | 3 | 4 | - | - |
| Prepaid suppliers' invoices | 13 | 15 | 6 | 6 |
| Emission rights sold | - | 7 | - | - |
| Insurance compensation | 1 | 2 | - | - |
| Other items | 4 | 3 | 1 | - |
| **Total** | **22** | **33** | **7** | **14** |

# Note 20 CASH AND CASH EQUIVALENTS

GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Cash and cash equivalents include the following components: | | |
| Cash and bank balances | 147 | 80 |
| Short-term investments | 1 | 2 |
| **Total** | **148** | **82** |

PARENT COMPANY

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Cash and cash equivalents include the following components: | | |
| Cash and bank balances | 3 | 0 |
| **Total** | **3** | **0** |

Short-term investments, etc. have been classified as cash and cash equivalents because:
- They have insignificant risk of value fluctuations
- They can be readily converted to cash
- They have a maximum maturity of three months from acquisition date

# Note 21 SHAREHOLDERS' EQUITY

## GROUP

MSEK

**Specification of reserves in shareholders' equity**

| Translation reserve | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Opening translation reserve | -154 | -124 |
| Translation differences for the year | -291 | 14 |
| Less hedging of currency risk in foreign operation | 112 | -44 |
| **Closing translation reserve** | **-333** | **-154** |

| Hedging reserve | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Opening hedging reserve | -44 | 65 |
| Cash flow hedges: | | |
| Change in fair value for the year | 114 | -253 |
| Transferred to net income | -6 | 105 |
| Tax attributable to hedges for the year | -26 | 39 |
| **Closing hedging reserve** | **38** | **-44** |

| Dissolved against Income Statement | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Cost of goods sold | 0 | 112 |
| Net financial income/expense | -6 | -7 |
| **Total** | **-6** | **105** |

| Total reserves | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Opening reserves | -198 | -59 |
| Change in reserves for the year: | | |
| Translation reserve | -179 | -30 |
| Hedging reserve | 82 | -109 |
| **Closing reserves** | **-295** | **-198** |

| Share capital and number of shares | No. of shares | | Share capital | |
|---|---|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 |
| Class A shares | 981,000 | 981,000 | 5 | 5 |
| Class B shares | 34,117,932 | 34,117,932 | 170 | 170 |
| **Total** | **35,098,932** | **35,098,932** | **175** | **175** |

The shares have a quotient value of SEK 5. Holders of ordinary shares are entitled to dividends progressively, and shareholdings have the following entitlements at Annual General Meetings: ten votes per class A share and one vote per class B share. All shares have equal entitlement to the Parent Company's remaining net assets. Regarding treasury shares (see below), all rights cease until these shares are re-issued.

**Re-purchased treasury shares included in the shareholders' equity item profit brought forward including net income**

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Opening re-purchased treasury shares | 26 | 26 |
| Sales in the year | - | - |
| **Closing re-purchased treasury shares** | **26** | **26** |
| **Number of shares** | | |
| Opening re-purchased treasury shares | 293,800 | 293,800 |
| Sales in the year | - | - |
| **Closing re-purchased treasury shares** | **293,800** | **293,800** |

**Reserves**

*Translation reserve*

The translation reserve encompasses all exchange rate differences that arise when translating financial statements of foreign operations that have prepared financial statements in a currency other than the presentation currency of the consolidated accounts. The Parent Company and Group present their financial statements in Swedish kronor. Additionally, the translation reserve comprises exchange rate differences arising from revaluing liabilities reported as hedging instrument of a net investment in a foreign operation.

*Hedging reserve*

The hedging reserve covers the effective portion of the cumulative net change of fair value on cash flow hedging instruments attributable to hedged transactions that have not yet occurred.

## cont. Note 21 SHAREHOLDERS' EQUITY

**Profit brought forward including net income**
Profit brought forward including net income includes accrued profits of the Parent Company and its subsidiaries. Previous reserves to the statutory reserve are included in this shareholders' equity item.

**Re-purchased shares**
Re-purchased shares include the acquisition cost of treasury shares held by the Parent Company.

**Dividend**
The Board of Directors proposed the following dividend after the reporting date. The dividend will be subject to approval by the AGM on 29 April 2013.

| MSEK | 2012 | 2011 |
|---|---|---|
| SEK 10.00 (10.00) per share | 348 | 348 |
| Reported dividend per share | 10.00 | 10.00 |

**Parent Company**
Changes in Parent Company's shareholders' equity are stated in the Statement of Changes in Parent Company Shareholders' Equity on page 51.

**Restricted reserves**
Restricted reserves may not be reduced through dividends.

**Statutory reserves**
The purpose of the statutory reserve is to save a portion of net income that cannot be used to cover losses brought forward.

**Non-restricted equity**
*Fair value reserve*
The Company applies the regulations stipulated in the Annual Accounts Act governing the measurement of financial instruments at fair value in accordance with Chap. 4 §§ 14a-e. Amounts are reported directly to the fair value reserve when the value change relates to a hedging instrument and the applied principles governing hedge accounting allow that all or part of the value change is recognised in shareholders' equity. A value change caused by an exchange rate fluctuation of a monetary item that comprises part of the Company's net investment in a foreign entity is reported to shareholders' equity.

*Profit brought forward*
Profit brought forward comprises previous year's profit brought forward and income after deduction for dividend paid in the year. Along with net income for the year and fair value reserve it comprises total non-restricted equity, i.e. the amounts available for dividends to shareholders.

| Earnings per share | 2012 | 2011 |
|---|---|---|
| Earnings per share before dilution (SEK) | 20.04 | 21.90 |
| Earnings per share after dilution (SEK) | 20.04 | 21.90 |
| Calculated with the following components: | | |
| Earnings attributable to Parent Company's shareholders | 698 | 762 |
| Weighted average number of shares, before dilution ('000) | 34,805 | 34,805 |
| Weighted average number of shares, after dilution ('000) | 34,805 | 34,805 |

## Note 22 UNTAXED RESERVES

### PARENT COMPANY

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| **Accumulated depreciation and amortisation in addition to plan:** | | |
| *Intangible assets* | | |
| Opening balance | 16 | 14 |
| Amortisation for the year in addition to plan | -2 | 2 |
| Closing balance | 14 | 16 |
| *Real estate used in business operations* | | |
| Opening balance | 5 | 6 |
| Depreciation for the year in addition to plan | -2 | -1 |
| Closing balance | 3 | 5 |
| *Machinery and equipment* | | |
| Opening balance | 40 | 38 |
| Depreciation for the year in addition to plan | 14 | 2 |
| Closing balance | 54 | 40 |
| **Tax allocation reserves** | | |
| Provision on assessment 2013 | 78 | - |
| Closing balance | 78 | - |
| **Total untaxed reserves** | **149** | **61** |

## Note 23 INTEREST-BEARING LIABILITIES

GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| **Long-term liabilities** | | |
| Credit facilities | 445 | 786 |
| Finance lease liabilities | 29 | 33 |
| **Total** | **474** | **819** |
| | | |
| **Current liabilities** | | |
| Overdraft facilities | 145 | 124 |
| Short-term portion of finance lease liabilities | 6 | 9 |
| **Total** | **151** | **133** |

**Covenants and repayment periods**
Current committed credit facilities were arranged by a syndicate of three banks in November 2012, and this facility expires in November 2017. At year-end these facilities amounted to MEUR 200 (175), of which MEUR 10 (21) had been utilised. All committed credit facilities are conditional on two covenants. Höganäs' debt/equity ratio may not exceed 1.5 (1.5). At year-end this was 0.13 (0.25). Höganäs' interest coverage ratio adjusted for depreciation and amortisation may not be less than 4.0 (4.0). At year-end, it was 31.0 (38.4). In the event of a change in ownership resulting in change of control, or if the Höganäs share is de-listed from NASDAQ OMX, the covenants of the credit facility may be subject to renegotiation. If the parties do not reach an agreement on the terms and conditions for continued finance, the bank syndicate has the option to cancel the finance agreement in advance.

Additionally, uncommitted credit facilities were MSEK 1,320 (1,578), of which MSEK 508 (730) had been utilised at year-end.

**Finance lease liabilities**
Finance lease liabilities become due for payment as follows:

| GROUP | Minimum lease payments | Interest | Principal | Minimum lease payments | Interest | Principal |
|---|---|---|---|---|---|---|
| MSEK | 2012 | 2012 | 2012 | 2011 | 2011 | 2011 |
| Within one year | 7 | 1 | 6 | 10 | 1 | 9 |
| Between one and five years | 27 | 2 | 25 | 30 | 4 | 26 |
| Later than five years | 5 | 1 | 4 | 9 | 2 | 7 |

## Note 24 OTHER LONG-TERM LIABILITIES

GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| **Other long-term liabilities** | | |
| Derivative instruments for hedging | 1 | 8 |
| Government subsidy, district heating facility | 26 | 28 |
| Un-settled purchase price | 15 | - |
| Other | 6 | 4 |
| **Total** | **48** | **40** |
| | | |
| **Liabilities that become due for payment after more than five years from the reporting date** | | |
| Government subsidy, district heating facility | 17 | 20 |

PARENT COMPANY

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| **Other long-term liabilities** | | |
| Derivative instruments for hedging | 1 | 8 |
| Un-settled purchase price | 15 | - |
| Other | 6 | - |
| **Total** | **22** | **8** |

## Note 25 EMPLOYEE BENEFITS

**Defined benefit plans**

GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Present value of wholly or partly unit-linked commitments | 431 | 428 |
| Fair value of plan assets | -343 | -320 |
| Net wholly or partly unit-linked commitments | 88 | 108 |
| | | |
| Present value of traditional assurance commitments | 1 | 2 |
| Present value of net commitments | 89 | 110 |
| | | |
| Unrecognised actuarial gains (+) and losses (-) | -149 | -164 |
| Net reported for defined benefit plans (see below) | -60 | -54 |
| | | |
| *The net amount is reported in the following items in the Statement of Financial Position:* | | |
| Long-term receivables | -68 | -63 |
| Provisions for pensions | 8 | 9 |
| **Net amount in Statement of Financial Position** | **-60** | **-54** |

**Summary of defined benefit plans**
Höganäs has defined benefit plans in Sweden, Belgium, the US, Germany, Taiwan, India and Italy. These are based on the benefits and length of service employees have at or near retirement. Plan assets are in Sweden, Belgium, the US, Germany, Taiwan and India.

**Change in reported net commitments for defined benefit plans**

GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Net commitment for defined benefit plans at beginning of year | -54 | -41 |
| Benefits paid | -17 | -17 |
| Deposited contributions | -6 | -5 |
| Expense reported in Income Statement | 16 | 9 |
| Exchange rate differences | 1 | 0 |
| **Net commitment for defined benefit plans at year-end** | **-60** | **-54** |

**Expense reported in the Income Statement**

GROUP

| MSEK | 2012 | 2011 |
|---|---|---|
| Expenses for service in current period | 10 | 7 |
| Reported actuarial losses | 8 | 3 |
| Interest expense on the commitment | 17 | 16 |
| Expenses for service in previous periods | -1 | 1 |
| Expected yield on plan assets | -18 | -18 |
| **Total net expense in Income Statement** | **16** | **9** |

**The expense is reported in the following Income Statement lines:**

GROUP

| MSEK | 2012 | 2011 |
|---|---|---|
| Cost of goods sold | 5 | 2 |
| Selling expenses | 3 | 2 |
| Administrative expenses | 4 | 3 |
| Research and development costs | 4 | 2 |
| **Total net expense in Income Statement** | **16** | **9** |
| | | |
| Actual yield on plan assets | 26 | -2 |

## cont. Note 25 EMPLOYEE BENEFITS

**Assumptions for defined benefit commitments**
The most significant actuarial assumptions as of the reporting date (expressed as weighted averages)

### GROUP

| | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Discount rate, % | 3.5 | 4.1 |
| Expected yield on plan assets, % | 5.7 | 5.7 |
| Future salary increase, % | 3.1 | 3.1 |
| Future increase of pensions, % | 1.5 | 2.0 |

**Change in commitment for defined benefit plan**

### GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Commitments for defined benefit plans at beginning of year | 430 | 375 |
| Expense for service in current year | 10 | 7 |
| Interest expense | 17 | 16 |
| Expense for service in previous periods | -1 | 1 |
| Actuarial gain (-) / loss (+) | 3 | 53 |
| Effect of reductions and settlements | - | -1 |
| Disbursed pensions | -21 | -22 |
| Exchange rate differences | -6 | 1 |
| **Commitments for defined benefit plans at end of year** | **432** | **430** |

**Change of fair value of plan assets**

### GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Fair value of plan assets at beginning of year | 320 | 321 |
| Expected yield on plan assets | 18 | 18 |
| Deposited contributions | 6 | 5 |
| Actuarial gain (-) / loss (+) | 8 | -20 |
| Disbursed pensions | -4 | -5 |
| Exchange rate differences | -5 | 1 |
| **Fair value of plan assets at end of year** | **343** | **320** |

**Plan assets have the following components**

### GROUP

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Shares and participations in equity funds | 221 | 201 |
| Interest-bearing securities | 122 | 119 |
| **Fair value of plan assets** | **343** | **320** |

**Historical information**

### GROUP

| MSEK | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of defined benefit commitments | -432 | -430 | -375 | -374 | -366 |
| Fair value of plan assets | 343 | 320 | 321 | 303 | 270 |
| **Surplus/deficit in plan** | **-89** | **-110** | **-54** | **-71** | **-96** |
| **Experience-based assessment of** | | | | | |
| Defined benefit obligations | -11 | 18 | 4 | 2 | 1 |
| Plan assets | 8 | -20 | 5 | 23 | -57 |

# cont. Note 25 EMPLOYEE BENEFITS

**Parent Company's pension obligations**

*Defined benefit plans*

The commitments for retirement pensions for the majority of salaried employees in Sweden are assured through provisions to a PRI liability. These funds are assured through transfer to pension funds. Other salaried employees have chosen alternative defined contribution pension solutions.

*Defined contribution plans*

In Sweden, the Group has defined contribution pension plans for employees, for which the companies meet all costs. There are also defined contribution plans for those salaried employees that have chosen alternative defined contribution pension solutions. There are defined contribution plans in foreign countries, which are partly funded by subsidiaries, and partly covered through contributions paid by employees. Payments to these plans are on an ongoing basis, according to the rules of each plan. The costs for defined contribution plans were MSEK 51 (41) in the Group and MSEK 15 (16) in the Parent Company.

**Net debt in the Balance Sheet**

PARENT COMPANY

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Present value of obligations for unit-linked pension plans | 187 | 189 |
| Fair value of plan assets under management (pension fund) | -197 | -189 |
| **Surplus in pension fund (-)/ net obligation (+)** | **-10** | **0** |
| The present value of obligations for traditionally assured pension plans | 2 | 5 |
| Unreported surplus in pension fund | 10 | 0 |
| **Reported net debt** | **2** | **5** |

## REMUNERATION AND OTHER BENEFITS TO SENIOR MANAGERS

**Principles for remunerating senior managers**

The Board of Directors has an internal Remuneration Committee comprising Chairman of the Board Anders G Carlberg, Jenny Lindén Urnes and Bengt Kjell. In addition, if the Committee considers it appropriate, the committee may co-opt another representative from management or other suitable person to participate in its meetings. However, such person may not participate in consideration of their own remuneration. Committee work is formalised by special instructions adopted by the Board of Directors as part of its rules of procedure. The Committee considers and consults on remuneration issues relating to management, share-based incentive schemes and general profit-related bonus schemes. In addition, the Committee monitors and evaluates programs for performance-related pay to management, the application of remuneration principles, as well as applicable remuneration structures and remuneration levels.

On assignment from the Board, the Committee is also responsible for producing proposals for remuneration and other employment terms for the CEO and other senior managers, for approval by the AGM. No right to make decisions on any single issue has been delegated to the Remuneration Committee. Höganäs should apply the remuneration levels and employment terms required to enable management with high competence and the capacity to achieve stated objectives to be hired and retained. Remuneration structures should motivate management to do their utmost to safeguard shareholders' interests. Accordingly, remuneration structures should be on market terms, and straightforward, long-term and measurable. Remuneration to management should consist of a basic and a performance- related component. The performance-related component should reward clear goal-related performance and improvements in simple, transparent structures. Performance-related pay should also be subject to a maximum limit.

Principles for remuneration and other employment terms are unchanged on previous years.

**Basic and performance-related pay**

The basic salary of senior managers should be on market terms and based on competence, responsibility and performance. Management's performance-related pay should not exceed basic salary, and normally, not exceed 50% of basic salary. It should relate to the satisfaction of predetermined goals, which may primarily relate to income, volume growth, return on capital employed and other similar objectively measurable goals.

Performance-related pay to the Chief Executive Officer for 2012 is calculated on the Group's operating income, where the maximum outcome is 60% of basic salary. The parameters and the remuneration level are unchanged on the previous year.

Performance-related pay to other members of Group Management is based on the achievement of targets and operating income. The maximum outcome for performance-related pay is six months' salary. These remuneration levels are unchanged compared to the previous year.

In late-2011, the Board of Directors took a decision on a long-term incentive scheme with a vesting period of 2012-2014. The purpose of this program is to increase senior managers' interest in, and commitment to, the Company's operations. The bonus program means that participants gain the possibility of receiving an additional bonus over and above the existing performance-related pay. 10 senior managers are entitled to the bonus program, whose outcome is based on income before tax for the financial years 2011-2013. The bonus per participant, within the auspices of the remuneration program, is a maximum of one years' salary. One prerequisite for bonus payments is the participant being an employee of Höganäs during the vesting period and until the payment date in 2014.

**Benefits**

The Chief Executive Officer and other senior managers' other benefits relate mainly to company cars.

**Pensions**

Höganäs' pension agreements with senior managers for pensions from age 65 onwards are defined contribution. This means that Höganäs does not guarantee senior managers any pre-determined pension level, but future pensions are exclusively dependent on the returns generated by asset managers.

For the Chief Executive Officer's pension after age 60, each month, 35% of fixed monthly salary is allocated to a defined contribution pension policy. Other members of the Group management are covered by pension plans where the Company pays up to 30% of basic monthly salary as premiums or according to a regular ITP (supplementary pensions for salaried employees) plan.

## cont. Note 25 EMPLOYEE BENEFITS

| 2012, MSEK | Basic salary, Directors' fees | Performance related pay | Other remunerations/ benefits | Pension expense | Share-based payment | Total | Pension obligations |
|---|---|---|---|---|---|---|---|
| Chairman of the Board, Anders G Carlberg | 0.6 | - | - | - | - | 0.6 | - |
| Board member, Urban Jansson | 0.3 | - | - | - | - | 0.3 | - |
| Board member, Bengt Kjell | 0.4 | - | - | - | - | 0.4 | - |
| Board member, Peter Gossas | 0.3 | - | - | - | - | 0.3 | - |
| Board member, Jenny Lindén Urnes | 0.3 | - | - | - | - | 0.3 | - |
| Board member, Björn Rosengren | 0.3 | - | - | - | - | 0.3 | - |
| Board member, Erik Urnes | 0.3 | - | - | - | - | 0.3 | - |
| Chief Executive Officer, Alrik Danielson | 6.6 | 1.9 | 0.2 | 2.0 | 1.8 | 12.5 | - |
| Senior Vice President, Ulf Holmqvist | 1.8 | - | 4.8 | 0.5 | 0.6 | 7.7 | 0.4 |
| Other senior managers (9 people) | 20.2 | 4.4 | 2.5 | 3.7 | 3.7 | 34.5 | 1.6 |
| **Total** | **31.1** | **6.3** | **7.5** | **6.2** | **6.1** | **57.2** | **2.0** |

| 2011, MSEK | Basic salary, Directors' fees | Performance related pay | Other benefits | Pension expense | Share-based payment | Total | Pension obligations |
|---|---|---|---|---|---|---|---|
| Chairman of the Board, Anders G Carlberg | 0.6 | - | - | - | - | 0.6 | - |
| Board member, Urban Jansson | 0.3 | - | - | - | - | 0.3 | - |
| Board member, Bengt Kjell | 0.4 | - | - | - | - | 0.4 | - |
| Board member, Peter Gossas | 0.3 | - | - | - | - | 0.3 | - |
| Board member, Jenny Lindén Urnes | 0.3 | - | - | - | - | 0.3 | - |
| Board member, Björn Rosengren | 0.3 | - | - | - | - | 0.3 | - |
| Board member, Erik Urnes | 0.3 | - | - | - | - | 0.3 | - |
| Chief Executive Officer, Alrik Danielson | 6.3 | 1.5 | 0.2 | 2.0 | - | 10.0 | - |
| Senior Vice President, Ulf Holmqvist | 1.9 | 0.2 | 0.1 | 0.5 | - | 2.7 | 0.4 |
| Other senior managers (9 people) | 18.3 | 3.5 | 2.2 | 3.5 | - | 27.5 | 1.1 |
| **Total** | **29.0** | **5.2** | **2.5** | **6.0** | **-** | **42.7** | **1.5** |

The Board of Directors, Chief Executive Officer and Senior Vice President received remuneration from the Parent Company only for the current and previous year.

**Shareholdings**
Senior managers' holdings of shares and options are stated on page 33.

**Severance pay**
On termination initiated by the Company, the Chief Executive Officer is entitled to 12 months' dismissal pay and severance pay of one year's salary, including pension benefits. On termination initiated by the Company, another 19 executives are entitled to up to 24 months' severance pay, including notice period and pension benefits. No severance pay is due on termination initiated by the employee.

**Stock option plans**
The Annual General Meetings (AGM) 2007–2009 resolved on the introduction of a performance-related staff stock option plan with the aim of offering key staff of the Group the opportunity of future stakeholding in the Company, thus increasing their interest in, and commitment to, the Company's operations. This plan covered the years 2007–2009, with the Chief Executive Officer and other members of the Group management eligible, as well as another 35 or so key staff of the Group, totalling some 50 people. These individuals were granted options depending on how the Group performed in relation to target figures set by the Board of Directors.

Granting is conditional on remaining in employment at the end of the term. The minimum term of the staff stock options is two years, and the maximum is four years, from the grant date, whereby half of the options are exercisable two years after granting and the remainder three years after granting.

A total of 111,580 options were granted to participants in the 2007 plan, which as a result of the share redemption procedure conducted in 2008, entitled the holders to receive a total of 123,854 class B shares. After restatement as a result of the share redemption procedure conducted in 2008, the exercise price for options outstanding in the 2007 plan were SEK 221.51 (221.51) per share on the reporting date. No granting was made to participants in the 2008 plan. In 2010, 226,000 options were granted to participants in the 2009 plan, which entitle the holders to subscribe for an equal number of class B shares. The exercise price for outstanding options in the 2009 plan was SEK 114.20 (114.20) per share on the reporting date. The 2007 plan expired on 31 March 2012. The remaining contracted term for the 2007 plan was 1.3 (2.3) years as of the reporting date.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36

## cont. Note 25 EMPLOYEE BENEFITS

**Number and weighted average exercise prices for cash-settled options**

| Options, thousands | Weighted average exercise price, SEK | Number of options | Weighted average exercise price, SEK | Number of options |
|---|---|---|---|---|
| GROUP | 2012 | 2012 | 2011 | 2011 |
| Outstanding at beginning of period | 141.03 | 227 | 160.60 | 186 |
| Accrued in period | 114.20 | 36 | 131.29 | 77 |
| Exercised in period | 154.85 | -134 | 221.51 | -36 |
| Expired in period | 150.97 | -17 | - | - |
| **Outstanding at end of period** | **114.20** | **112** | **141.03** | **227** |
| (Exercisable at end of period) | (114.20) | (24) | (221.51) | (57) |

| PARENT COMPANY | 2012 | 2012 | 2011 | 2011 |
|---|---|---|---|---|
| Outstanding at beginning of period | 136.78 | 100 | 164.44 | 88 |
| Accrued in period | 114.20 | 15 | 131.89 | 38 |
| Exercised in period | 148.82 | -65 | 221.51 | -26 |
| Expired in period | 114.20 | -9 | - | - |
| **Outstanding at end of period** | **114.20** | **41** | **136.78** | **100** |
| (Exercisable at end of period) | (114.20) | (5) | (221.51) | (21) |

For cash-settled options exercised in the period, the weighted average share price on the exercise date was SEK 249.04 (260.34). The estimated value of the Group's staff stock option plans was MSEK 18 (18) at the end of the financial year.

## Note 26 OTHER PROVISIONS

| MSEK | Reinstatement expenses | | Emission rights | | Other provisions | | Total | |
|---|---|---|---|---|---|---|---|---|
| GROUP | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Carrying amount at beginning of period | 16 | 17 | 30 | 30 | 2 | 3 | 48 | 50 |
| Provisions in the period | 1 | 1 | 12 | 30 | 0 | - | 13 | 31 |
| Amount utilised in the period | -4 | -2 | -30 | -30 | -1 | -1 | -35 | -33 |
| **Carrying amount at end of period** | **13** | **16** | **12** | **30** | **1** | **2** | **26** | **48** |
| Of which total long-term portion of provisions | 13 | 12 | - | - | 1 | 2 | 14 | 14 |
| Of which total short-term portion of provisions | 0 | 4 | 12 | 30 | - | - | 12 | 34 |

**Reinstatement expenses**
The total provision for reinstatement expenses was MSEK 16 at the beginning of the year, of which MSEK 15 related to a damming area for landfill. Estimated provisioning for the remaining commitments is MSEK 12 including discounting effect. Because of the long-term nature of this liability, the biggest uncertainty is to estimate the provision for those expenses that will arise. On the basis of estimated future production volumes, the useful life is estimated at 23 years.

**Emission rights**
Emission rights for $CO_2$ were received at the beginning of the year at a market value of MSEK 22. Emission rights consumed are recognised as short-term provisions. Upon reporting of consumed emission rights returned to the Swedish Energy Agency, the short-term provision is settled. More information in accounting principles s (vii) on page 58.

**Other provisions**
Legal disputes largely relate to current legal proceedings regarding employment and tax in Brazil.

## Note 27 LIABILITIES TO CREDIT INSTITUTIONS

PARENT COMPANY

| MSEK | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| **Long-term liabilities** | | |
| Bank loans | 439 | 785 |
| | | |
| **Current liabilities** | | |
| Overdraft facility | 60 | 39 |
| | | |
| **Liabilities that become due for payment more than five years after the reporting date** | | |
| Bank loans | - | - |

Approved overdraft facilities amount to MSEK 400 (400).

## Note 28 ACCRUED EXPENSES AND DEFERRED INCOME

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 |
| Vacation pay liability | 96 | 91 | 23 | 22 |
| Social security expenses | 52 | 54 | 22 | 27 |
| Bonuses to customers | 29 | 26 | - | - |
| Staff stock option plans | 18 | 18 | 7 | 9 |
| Invoices not received | 14 | 13 | 5 | 3 |
| Staff bonuses | 19 | 44 | 4 | 9 |
| Interest | 1 | 4 | 1 | 4 |
| Government subsidies | 4 | 8 | - | - |
| Other items | 49 | 41 | 4 | 4 |
| **Total** | **282** | **299** | **66** | **78** |

## Note 29 PLEDGED ASSETS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 |
| **Pledged assets** | | | | |
| In the form of pledged assets for own liabilities and provisions | | | | |
| Property mortgages | 17 | 19 | 10 | 10 |
| Assets with ownership reservations | 34 | 40 | - | - |
| **Total** | **51** | **59** | **10** | **10** |
| | | | | |
| **Contingent liabilities** | | | | |
| Pension obligations | 25 | 16 | 21 | 15 |
| Guarantees in favour of subsidiaries | - | - | 282 | 329 |
| Guarantees, other | 50 | 69 | - | - |
| **Total** | **75** | **85** | **303** | **344** |

## Note 30 RATES OF EXCHANGE

| Country | Local currency | Year-end rates of exchange | | Average rates of exchange | |
|---|---|---|---|---|---|
| | | 31 Dec. 2012 | 31 Dec. 2011 | 2012 | 2011 |
| Brazil | BRL | 3.1885 | 3.7109 | 3.4837 | 3.8833 |
| China | CNY | 1.0456 | 1.0998 | 1.0738 | 1.0057 |
| Denmark | DKK* | 115.5162 | 120.3326 | 116.9620 | 121.2550 |
| EMU | EUR | 8.6166 | 8.9447 | 8.7053 | 9.0335 |
| India | INR* | 11.8839 | 12.9924 | 12.7085 | 13.9444 |
| Japan | JPY* | 7.5627 | 8.9179 | 8.5067 | 8.1658 |
| Korea | KRW* | 0.6092 | 0.5973 | 0.6017 | 0.5868 |
| Norway | NOK* | 116.7200 | 115.0492 | 116.4067 | 115.8657 |
| Russia | RUB* | 21.4719 | 21.5350 | 21.8130 | 22.1044 |
| Taiwan | TWD | 0.2251 | 0.2296 | 0.2287 | 0.2212 |
| UK | GBP | 10.4914 | 10.6768 | 10.7340 | 10.4115 |
| US | USD | 6.5156 | 6.9234 | 6.7754 | 6.4969 |

*Rates of exchange in 100 units

## Note 31 FINANCIAL RISKS AND FINANCE POLICY

A review of the Group's financing activities and financial risks, with a sensitivity analysis, is on pages 21-23. Operations are conducted on the basis of a Finance Policy adopted by the Board of Directors, which states rules and guidelines for managing various financial risks. The Finance Policy identifies the following three material risks—financing risk, market risk and credit risk. Currency, interest, metal and energy derivatives are used as hedging instruments in accordance with the guidelines stated by the Board of Directors.

**Market risk**
Market risk is the risk arising through commercial flows in foreign currency that arise in operations (transaction exposure), financing working capital (interest risk), investments in foreign countries (translation risk), as well as energy and raw materials risk.

**(a) Currency risk**
*(i) Transaction exposure*
The main exposure relates to the Group's sales and purchasing in different currencies. These currency risks partly comprise the risk of fluctuations in the value of financial instruments, i.e. accounts receivable and accounts payable, and partly the currency risk in relation to expected and contracted payment flows.

99% (99) of Höganäs' sales were to countries outside Sweden in 2012. Total net revenues in foreign currencies in 2012 were MSEK 6,704 (7,076). The largest flow currencies were EUR, USD and JPY.

The objective of Höganäs' currency hedging is to hedge a determined portion of the Group's net foreign currency exposure in the short and medium term. The purpose of hedging currency exposure is to even out profit fluctuations. The Consolidated Income Statement includes exchange rate differences of MSEK -24 (10) in operating income and MSEK -5 (-20) in net financial income/expense.

At year-end 2012, the Group had the following currency hedges for expected payment flows in EUR, JPY, USD and GBP for 2013. The main derivatives used are forward contracts. Contract volumes are stated in nominal terms below. Contracts are reported at fair value in the Balance Sheet, and the accumulated value change is recognised in shareholders' equity via other comprehensive income.

When the contract is realised, the accumulated value change is reported to the Income Statement. The effect of currency derivatives on operating income in 2012 was MSEK 17 (81).

The value of outstanding contracts not recognised as income is stated in the following table.

**Outstanding hedges of currency flows**

| | EUR/SEK | | USD/SEK | | JPY/SEK | | GBP/SEK | |
|---|---|---|---|---|---|---|---|---|
| 31 Dec. 2012 | Volume[1] | Rate of exchange[2] | Volume[1] | Rate of exchange[2] | Volume[1] | Rate of exchange[2] | Volume[1] | Rate of exchange[2] |
| Q1, 2013 | 16.95 | 8.97 | 23.25 | 6.87 | 630 | 0.087 | 0.615 | 10.73 |
| Q2, 2013 | 16.95 | 9.08 | 23.25 | 7.05 | 630 | 0.088 | 0.615 | 11.17 |
| Q3, 2013 | 16.95 | 8.60 | 23.25 | 6.83 | 630 | 0.087 | 0.420 | 10.81 |
| Q4, 2013 | 16.95 | 8.75 | 23.25 | 6.70 | 630 | 0.083 | 0.420 | 10.76 |
| **Total** | **67.8** | **8.85** | **93.0** | **6.86** | **2 520** | **0.086** | **2.07** | **10.88** |
| | (68.6) | (9.07) | (93.0) | (6.54) | (2 520) | (0.083) | (2.46) | (10.44) |
| Rate of exchange ruling on reporting date | | 8.62 | | 6.52 | | 0.076 | | 10.49 |
| Value change (MSEK)[3] reported in hedging provision on reporting date | | 12.7 | | 30.1 | | 26.1 | | 0.7 |

[1] Volumes are expressed in millions of local currency.
[2] Average forward rate.
[3] Change in fair value reported in the hedging provision in shareholders' equity on cash flow hedges, where hedge accounting is applied.
This item relates to value changes on derivative instruments relating to future currency flows.

In addition to the above hedging, Höganäs has currency hedging for the net of outstanding accounts receivable—trade and accounts payable— trade denominated in the following currencies: EUR/SEK, JPY/SEK, USD/SEK, USD/EUR, GBP/EUR, JPY/EUR, USD/GBP and EUR/GBP. The Finance Policy states that this exposure should be 100% hedged. Contract terms are up to two months. Both the underlying receivable or liability and the hedging instruments are reported at rates of exchange at the reporting date, and exchange rate fluctuations are reported in the Income Statement.

## cont. Note 31 FINANCIAL RISKS AND FINANCE POLICY

(ii) Translation exposure
Currency risks also exist in the translation of the foreign subsidiary's assets, liabilities and earnings to the Parent Company's functional currency, termed translation exposure. The Group's presentation currency is Swedish kronor. Considering Höganäs has a significant portion of its capital employed in foreign currencies, funding is primarily arranged in these currencies directly. Because hedge accounting for net investments in subsidiaries is applied on this funding, restatement is effected in the hedging reserve in shareholders' equity via other comprehensive income. Höganäs' policy is that net investment in the form of lending and shareholders' equity in foreign convertible currencies should be hedged through external borrowings in the same currency. All borrowing should be arranged in the currencies in which the Group has its net investments. If net investment exceed external borrowings, there is no requirement for the excess portion to be hedged with currency forwards. The translation difference is reported in Note 21 Shareholders' Equity.

**Hedged portion of net assets by currency**

| MSEK | 31 Dec. 2012 | % | 31 Dec. 2011 | % |
|---|---|---|---|---|
| USD | 1,541 | 19 | 1,366 | 26 |
| EUR | 846 | 18 | 741 | 30 |
| JPY | 211 | 0 | 223 | 95 |
| GBP | 40 | 0 | 37 | 87 |
| **Total** | **2,638** | | **2,367** | |

**(b) Interest risk**
Interest risk is the risk that the Group's net interest income/expense deteriorates when market interest rates change. Höganäs is a net borrower, and accordingly, the Group is exposed to a risk for deteriorated net interest income/expense when market interest rates rise.

At year-end, interest-bearing liabilities were MSEK 625 (952) and the average fixed interest period on these liabilities was 0.4 (0.8) years including interest swaps and 0.2 (0.2) years excluding interest swaps. Short-term and long-term investments and cash and cash equivalents were MSEK 176 (109) and the average fixed interest period on these assets was 0.1 (0.2) years.

Höganäs' funding facilities are usually arranged with maturities of three months. Interest fixings are then controlled with the aid of interest swaps.

**Interest fixings including interest swaps and maturity dates**

| 31 Dec. 2012 | Total[1] | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| EUR | 18 | 18 | - | - | - | - |
| GBP | - | - | - | - | - | - |
| USD | 45 | 35 | 10 | - | - | - |
| JPY | - | - | - | - | - | - |

| 31 Dec. 2011 | Total[1] | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| EUR | 25 | 25 | - | - | - | - |
| GBP | 3 | 3 | - | - | - | - |
| USD | 52 | 17 | 25 | 10 | - | - |
| JPY | 1,895 | 1,895 | - | - | - | - |

[1] Amounts expressed in millions of local currency.

The Company had interest swaps and interest floors with a nominal value of MSEK 228 (779) on the reporting date. The change in the fair value of swaps has been reported in the hedging reserve via other comprehensive income. On the reporting date, the fair value of the swaps was MSEK -3 (-6). Effective interest excluding interest swaps at year-end was 0.86% (1.34).

**(c) Energy and raw material risk**
A significant portion of Höganäs' operations consist of buying and selling metals. The Group buys metals and sells metal powder products, where sales prices are adjusted for the price of the metals included in the product. Refining metals into metal powder is energy intensive. Höganäs' raw materials risk mainly arises in copper, nickel and energy. Value changes from raw materials derivatives are reported in the hedging provision in shareholders' equity via other comprehensive income. An overview of how Höganäs manages energy and raw materials risk is provided in the risk management section on pages 21-23.

**(i) Electricity and gas/oil**
Höganäs' production consumes a substantial amount of energy. The Group's purchasing of electricity, oil and natural gas corresponded to MSEK 424 (443) in 2012.

**Outstanding hedges on electricity and gas**

| 31 Dec. 2012 | Electricity | | Gas | |
|---|---|---|---|---|
| | Volume[1] | Price[2] | Volume[1] | Price[2] |
| Maturing 2013 | 193 | 456 | 263 | 236 |
| Maturing 2014 | 92 | 408 | 131 | 242 |
| **Total** | **285** | | **394** | |
| Spot price on reporting date | | 275 | | 251 |
| Value change (MSEK)[3] reported in hedging provision on reporting date | | -20 | | -3 |

[1] Volume is expressed in GWh
[2] Average forward price in SEK/MWh
[3] Change in fair value reported in the hedging provision in shareholders' equity on cash flow hedges, where hedge accounting is applied. This item relates to value changes on derivative instruments relating to future energy purchases.

## cont. Note 31 FINANCIAL RISKS AND FINANCE POLICY

**(ii) Copper, nickel and molybdenum**
Metal derivatives are used to reduce exposure to changes in raw materials prices. At present, the price risk of nickel, copper and molybdenum is hedged. Hedging is effected with standard financial derivatives quoted daily on the London Metal Exchange (LME). For metals not quoted on the LME, price hedging can be effected through fixed-fee contracts with suppliers.

**Outstanding hedges on copper, nickel and molybdenum**

| 31 Dec. 2012 | Copper | | Nickel | | Molybdenum | |
|---|---|---|---|---|---|---|
| | Volume[1] | Price[2] | Volume[1] | Price[2] | Volume[1] | Price[2] |
| January 2013 | 250 | 7,978 | 468 | 16,375 | 10 | 26,069 |
| February 2013 | - | - | 396 | 17,559 | 25 | 24,317 |
| March 2013 | - | - | - | - | 10 | 24,251 |
| April 2013 | - | - | - | - | 12 | 25,309 |
| May 2013 | - | - | - | - | - | - |
| June 2013 | - | - | - | - | - | - |
| **Total** | **250** | **7,978** | **864** | **16,917** | **57** | **24,821** |
| Spot price on reporting date | | 7,915 | | 17,085 | | 25,132 |
| Value change (MSEK)[3] reported in hedging reserve on reporting date | | -0.2 | | -0.8 | | 0 |

[1] Volume is expressed in tons
[2] Average forward price in USD
[3] Change in fair value reported in the hedging reserve in shareholders' equity on cash flow hedges, where hedge accounting is applied.
This item relates to value changes on derivative instruments relating to changes in raw materials prices.

**Financing risk**
Financing risk is the risk that the Group encounters problems accessing borrowed capital. The objective is that at any time, the Group will have access to committed long-term credit facilities that cover the needs of operations with a satisfactory margin.

Current committed credit facilities were arranged by a syndicate of three banks in November 2012, and this facility matures in November 2017. At year-end, these facilities amounted to MEUR 200 (175), of which MEUR 10 (21) had been utilised. All credits are conditional on two covenants. Höganäs' debt/equity ratio may not exceed 1.5 (1.5). At year-end, this ratio was 0.13 (0.25). Höganäs' interest coverage ratio adjusted for depreciation and amortisation may not be less than 4.0 (4.0). At year-end, it was 31.0 (38.4). In the event of a change in ownership resulting in change of control, or if the Höganäs share is de-listed from NASDAQ OMX, the covenants of the credit facility may be subject to renegotiation. If the parties do not reach an agreement on the terms and conditions for continued finance, the bank syndicate has the option to cancel the finance agreement in advance.

Additionally, uncommitted credits were MSEK 1,320 (1,578), of which MSEK 508 (730) had been utilised at year-end. Firstly, surplus liquidity should be used to amortise interest-bearing liabilities. Secondly, the Treasury function should invest the Group's surplus liquidity.

**Financial liabilities**
The following maturity analyses illustrate the contracted undiscounted cash flows for the Group's financial liabilities allocated to the stated time intervals. The cash flows of interest-bearing liabilities cover repayments of principal and interest payments. Future interest payments have been estimated starting from those liabilities in place on the reporting date. Interest payments of liabilities accruing variable interest have been measured on the basis of current market interest rates on the reporting date. For interest swaps, the net of the interest to be paid and received respectively is stated in the relevant time interval, because it is the net cash flow that is swapped.

At year-end, the Group's financial liabilities were MSEK 1,098 (1,553).

| 31 Dec. 2012 | | | | | |
|---|---|---|---|---|---|
| **Maturity** | **< 1 m.** | **1–3 m.** | **3 m.–1 yr.** | **1–5 yr.** | **> 5 yr.** |
| Credit facilities | 1 | 1 | 3 | 463 | - |
| Other credits | 151 | - | - | - | - |
| Accounts payable | 335 | 78 | 36 | - | - |
| Derivatives | 5 | 5 | 16 | 4 | - |
| **Total** | **492** | **84** | **55** | **467** | **-** |

| 31 Dec. 2011 | | | | | |
|---|---|---|---|---|---|
| **Maturity** | **< 1 m.** | **1–3 m.** | **3 m.–1 yr.** | **1–5 yr.** | **> 5 yr.** |
| Credit facilities | 1 | 2 | 8 | 787 | - |
| Other credits | 130 | - | - | - | - |
| Accounts payable | 371 | 108 | 48 | - | - |
| Derivatives | 16 | 16 | 56 | 10 | - |
| **Total** | **518** | **126** | **112** | **797** | **-** |

The Parent Company serves as financier to subsidiaries. Subsidiaries have local overdraft facilities, which have been approved by the Parent Company.

**Credit risk**
Credit risk can be divided into commercial and financial counterparty risk. Commercial counterparty risk is the risk of one of the Group's customers becoming insolvent and that prepared sales forecasts or hedged flows cannot be delivered.

To some extent, Höganäs' credit risk for customers is limited through sales being conducted in a large number of countries, to a large number of customers, thus achieving risk diversification. There is a credit insurance of MUSD 9 (9) intended to reduce the credit risk of customers in the US. Moreover, Höganäs uses export letters of credit for sales on certain markets. At year-end, the single largest credit exposure was MSEK 55 (52). The Group's Credit Policy stipulates that credit checks precede all sales to new customers, to further limit credit risk. Bad debt was MSEK 1 (3).

The financial counterparty risk is the risk of a counterparty that Höganäs has entered a contract with becoming insolvent and that an investment and/or unrealised gain cannot be re-paid.

For derivative instruments, Höganäs primarily uses banks where the Group has a committed credit facility.

Höganäs' credit risk exposure at year-end is stated in the following table. Also see Note 18 Accounts receivable—trade/credit risk.

## cont. Note 31 FINANCIAL RISKS AND FINANCE POLICY

| Credit risk exposure | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Accounts receivable | 826 | 934 |
| Cash and bank balances | 148 | 82 |
| Short-term and long-term investments | 30 | 28 |
| Derivatives | 78 | 34 |
| **Total** | **1,082** | **1,078** |

**Fair value and carrying amount of financial assets and financial liabilities are reported in the Consolidated Statement of Financial Position**

The carrying amounts of interest-bearing assets and liabilities in the Statement of Financial Position may differ from fair value, for reasons including changes in market interest rates. To measure the fair value of financial assets and liabilities, official quoted rates have been used for the assets and liabilities traded on an active marketplace.

In those cases where no reliable market quotes are available, a fair value has been measured by discounting future payment flows using current market interest rates, which are then translated to Swedish kronor using the current rate of exchange.

Because interest-bearing financial assets have very short fixed interest periods, the fair value is judged to correspond to carrying amount. For financial instruments like accounts receivable—trade, accounts payable—trade and other non-interest-bearing financial assets and liabilities, which are reported at amortised cost less potential impairment, the fair value is judged to be the same as the carrying amount.

The following table states fair values and carrying amounts of financial assets and financial liabilities reported in the Consolidated Statement of Financial Position.

| | Financial assets & financial liabilities measured at fair value via Income Statement [1] | Derivatives used in hedge accounting | Loans and accounts receivable | Financial liabilities reported at amortised cost | Total carrying amount | Total fair value |
|---|---|---|---|---|---|---|
| **31 Dec. 2012** | | | | | | |
| Accounts receivable | - | - | 826 | - | 826 | 826 |
| Other receivables | 4 | 74 | - | - | 78 | 78 |
| Cash and cash equivalents | - | - | 148 | - | 148 | 148 |
| Short-term and long-term investments | - | - | 30 | - | 30 | 30 |
| **Total** | **4** | **74** | **1,004** | **-** | **1,082** | **1,082** |
| Long-term interest-bearing liabilities | - | - | - | 474 | 474 | 475 |
| Other long-term liabilities | - | 1 | - | - | 1 | 1 |
| Current interest-bearing liabilities | - | - | - | 151 | 151 | 151 |
| Accounts payable | - | - | - | 450 | 450 | 450 |
| Other liabilities | - | 28 | - | - | 28 | 28 |
| **Total** | **-** | **29** | **-** | **1,075** | **1,104** | **1,105** |
| **31 Dec. 2011** | | | | | | |
| Long-term receivables | - | 2 | - | - | 2 | 2 |
| Accounts receivable | - | - | 934 | - | 934 | 934 |
| Other receivables | 7 | 25 | - | - | 32 | 32 |
| Cash and cash equivalents | - | - | 82 | - | 82 | 82 |
| Short-term and long-term investments | - | - | 28 | - | 28 | 28 |
| **Total** | **7** | **27** | **1,044** | **-** | **1,078** | **1,078** |
| Long-term interest-bearing liabilities | - | - | - | 819 | 819 | 820 |
| Other long-term liabilities | - | 8 | - | - | 8 | 8 |
| Current interest-bearing liabilities | - | - | - | 133 | 133 | 133 |
| Accounts payable | - | - | - | 527 | 527 | 527 |
| Other liabilities | - | 90 | - | - | 90 | 90 |
| **Total** | **-** | **98** | **-** | **1,479** | **1,577** | **1,578** |

[1] Fair value option is not applied.

## cont. Note 31 FINANCIAL RISKS AND FINANCE POLICY

**Valuation hierarchy**
All financial instruments measured at fair value in the Statement of Financial Position should be assigned to one of three tiers in the fair value hierarchy that consists of the following tiers:

Tier 1
Financial instruments whose fair value is measured according to prices quoted on an active marketplace of the same instrument, such as exchange-traded standard derivatives for electricity, gas and metals.

Tier 2
Financial instruments whose fair value is measured on the basis of either directly (as price) or indirectly (has its origin in price) observable market data that are not included in tier 1. For example, certain OTC-traded products such as interest swaps and currency forwards.

Tier 3
Financial instruments whose fair value is measured from input data that is not observable on the market.

| | Tier 1 | | Tier 2 | | Tier 3 | |
|---|---|---|---|---|---|---|
| MSEK | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2012 | 31 Dec. 2011 |
| Long-term receivables | - | - | - | 2 | - | - |
| Other receivables | - | 1 | 78 | 31 | - | - |
| **Total** | **-** | **1** | **78** | **33** | **-** | **-** |
| | | | | | | |
| Other long-term liabilities | - | - | 1 | 8 | - | - |
| Other liabilities | 23 | 29 | 5 | 61 | - | - |
| **Total** | **23** | **29** | **6** | **69** | **-** | **-** |

**Insurable risks**
Höganäs AB has a centralised non-life and professional indemnity cover. Although local insurance cover is necessary in some countries, in those cases where such cover does not satisfy the Group's minimum standards, coverage is achieved through umbrella coverage using Höganäs AB's Master Insurance Policy.

**Capital management**
The Group's objective is to have a favourable capital structure and financial stability. This is an important basis for continued development of business operations. Capital is defined as total shareholders' equity including non-controlling interests.

| Capital | 31 Dec. 2012 | 31 Dec. 2011 |
|---|---|---|
| Share capital | 175 | 175 |
| Translation reserve | -333 | -154 |
| Hedging reserve | 38 | -44 |
| Profit brought forward incl. net income | 3,887 | 3,537 |
| Non-controlling interests | 0 | 0 |
| **Total** | **3,767** | **3,514** |

The Board of Directors' ambition is to maintain a balance between high returns that are enabled through higher borrowings and the benefits and security that a sound capital structure offers. The Group's goal is to achieve a return on capital employed of 20%. Returns for the year were 20.3% (24.9). Calculated as return on equity, the figure was 19.2 (22.6). As a comparison, the effective interest for the loan portfolio based on average borrowings for the year was 0.86% (1.34).

The Board of Directors' intention is to have an annual dividend level of 30-50% of net income. The proposed dividend for the year of SEK 10.00 (10.00) per share, corresponds to 50% (46) of income. Dividend levels should be adapted to Höganäs' income level and future prospects, cash flow, investment requirement and other relevant factors. In the past five-year period, average dividends correspond to 43% of net income.

The Board of Directors' objective is to increase employees' shareholdings of the Group. As a consequence, a performance-based staff stock option plan for the CEO and other key staff of the Group was introduced in the previous year. The scope and terms are stated in Note 25.

The Group's Board of Directors has a mandate from the AGM 2012 to transfer treasury shares in Höganäs with the aim of covering commitments relating to the staff stock option plans of 2007 and 2009. There were no transfers in 2012 or 2011.

No change to the Group's capital management occurred in the year. All the Parent Company's credits are associated with capital adequacy requirements, stated in Note 23. Otherwise, there are no express external capital adequacy requirements on the Group.

# Note 32 RELATED PARTIES

The Parent Company exerts a controlling influence over its subsidiaries, see Note 14. Business terms and market pricing apply to the supply of services and products between Group companies. Intragroup transactions and dealings between subsidiaries are stated below. The Group's transactions with senior managers comprise salaries and other remuneration, benefits, pensions and agreements on severance pay to the Board and CEO, are stated in Note 25. Jenny Lindén Urnes controls 37.8% of the votes of Höganäs AB through Lindéngruppen AB.

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 purchase all the shares of Höganäs AB (publ). As a result of the offer, three Board members of Höganäs, who are also Board members of Lindéngruppen, were disqualified according to NASDAQ OMX's takeover rules. This means that Jenny Lindén Urnes, Erik Urnes and Urban Jansson may not participate in Höganäs' consideration of the cash offer, and that Höganäs should obtain and publish a fairness opinion from independent experts regarding the offer. The scheduled acceptance period is from 15 March 2013 to 24 May 2013, both dates inclusive. For more information on the cash offer, see Note 36.

**PARENT COMPANY, MSEK**

| Related parties | Year | Sales of goods to related party | Purchases of goods from related party | Other (interest, dividend) | Liabilities to related party as of 31 Dec. | Receivable from related party as of 31 Dec. |
|---|---|---|---|---|---|---|
| Höganäs Hamnbyggnads AB | 2012 | - | - | - | - | 9 |
| | 2011 | - | - | - | - | 10 |
| Höganäs Sweden AB | 2012 | - | - | -5 | 269 | 236 |
| | 2011 | - | - | - | 211 | 240 |
| Höganäs HOGAP AB | 2012 | - | - | - | 1 | - |
| | 2011 | - | - | - | 1 | - |
| Digital Metal AB | 2012 | - | - | - | - | 1 |
| | 2011 | - | - | - | - | - |
| Höganäs Belgium S.A. | 2012 | - | - | -8 | 465 | 3 |
| | 2011 | - | - | -8 | 329 | 4 |
| Höganäs (GB) Ltd | 2012 | - | - | - | 132 | - |
| | 2011 | - | - | - | 119 | 1 |
| Höganäs Japan K.K. | 2012 | - | - | 49 | - | 2 |
| | 2011 | - | - | 40 | - | - |
| Höganäs France S.A.S. | 2012 | - | - | 2 | 3 | - |
| | 2011 | - | - | 2 | 3 | - |
| Höganäs GmbH | 2012 | - | - | - | 59 | - |
| | 2011 | - | - | - | 57 | - |
| Höganäs Italia S.r.l. | 2012 | - | - | 3 | - | - |
| | 2011 | - | - | 3 | - | - |
| Höganäs India Pvt Ltd | 2012 | - | - | - | - | 5 |
| | 2011 | - | - | - | - | 3 |
| Höganäs East Europe LLC | 2012 | - | - | 4 | - | - |
| | 2011 | - | - | 19 | - | - |
| Höganäs Ibérica S.A. | 2012 | - | - | 2 | 3 | - |
| | 2011 | - | - | 4 | 3 | - |
| Höganäs Taiwan Ltd | 2012 | - | - | 18 | - | 1 |
| | 2011 | - | - | 19 | - | - |
| Höganäs Korea Ltd | 2012 | - | - | - | - | - |
| | 2011 | - | - | 3 | - | - |
| Höganäs Korea Production Ltd | 2012 | - | - | - | - | 38 |
| | 2011 | - | - | - | - | - |
| Höganäs (China) Co., Ltd | 2012 | - | - | 39 | - | 8 |
| | 2011 | - | - | 40 | - | 6 |
| NAH Holdings, Inc. | 2012 | - | - | - | - | - |
| | 2011 | - | - | - | - | - |
| North American Höganäs, Inc. | 2012 | - | - | - | 110 | 4 |
| | 2011 | - | - | - | 65 | 3 |
| NAH Finance Holding AB | 2012 | - | - | - | 835 | - |
| | 2011 | - | - | - | 760 | - |
| Höganäs Brasil Ltda | 2012 | - | - | 6 | - | 26 |
| | 2011 | - | - | 1 | - | 26 |
| **Total** | **2012** | **-** | **-** | **110** | **1,877** | **333** |
| | **2011** | **-** | **-** | **123** | **1,548** | **293** |

The Parent Company has received dividends from subsidiaries of MSEK 123 (131) and invoiced subsidiaries MSEK 169 (169) for Group-wide services. Sureties issued in favour of subsidiaries were MSEK 282 (329) as of the reporting date.

In the year, Höganäs Sweden AB purchased MSEK 23 (25) of goods and services from Höganäs Verkstad AB. The closing liability as of the reporting date was MSEK 3 (2).

## Note 33 SIGNIFICANT ESTIMATES AND JUDGMENTS

Group management and the Board of Directors make estimates and assumptions regarding the future. These estimates and assumptions affect the accounts and other financial information presented, including contingent liabilities. The estimates are based on historical experience and the various assumptions considered reasonable in prevailing circumstances. Conclusions thereby drawn form the basis for decisions regarding carrying amounts of assets and liabilities in cases where they cannot be measured through other information. Actual outcomes may vary from these estimates and other assumptions being made or other circumstances arising. Segments including such estimates and assumptions that may have a material effect on the Group's results of operations and financial position are, for example:

**Impairment testing of goodwill and other assets**
At the end of the year, consolidated goodwill was MSEK 84 (89), the majority allocated to Höganäs' operation in the USA. Impairment is tested annually in tandem with the annual financial statement, or as soon as altered circumstances indicate impairment, for example a changed business climate or a decision on the sale or closure of an operation. Impairment is conducted if the estimated recoverable value is an amount less than the carrying amount of the cash-generating unit. A statement on impairment tests in the year is provided in Note 11.

Other tangible and intangible fixed assets are reported that cost less accumulated depreciation and amortisation and potential impairment. Depreciation and impairment is over estimated useful lives down to an estimated residual value. The carrying amount of the Group's fixed assets is tested as soon as altered circumstances indicate impairment. Value in use is measured as the expected future discounted cash flow primarily from the cash-generating unit to which the asset belongs, but in specific cases, also to individual assets. Testing of the carrying amount of an asset is also relevant to decisions on retirement. Assets are recognised at the lower of the carrying amount and fair value after deducting selling expenses.

**Computation of income tax and measurement of loss carry-forwards**
Judgements are made to determine current and deferred tax assets or liabilities, especially for deferred tax assets. In this context, the likelihood that the deferred tax assets will be utilised for deduction against future taxable profits is estimated. The fair value of these future taxable profits may differ in terms of future business conditions and earnings ability or changed rules on taxation. Loss carry-forwards of MSEK 128 (160) have been reported in the Group, based on a judgement that they will probably be usable and result in lower tax payments in the future. The majority of the capitalised loss carry-forwards relate to Höganäs' operations in the USA.

**Measurement of employee benefits**
The net commitment relating to defined-benefit plans was MSEK -60 (-54) at the end of the year. The value of pension obligations for defined benefit pension plans are based on actuarial computations from assumptions regarding discount rates, future salary increases, inflation and demographic conditions. The majority of the net commitment is attributable to defined benefit plans in Sweden. A statement of the most significant actuarial assumptions and historical information is in Note 25. The applicable accounting principles permit actuarial gains and losses in defined benefit pension plans to be recognised as income only to the extent they exceed or are less than 10% of the greater of the present value of the fair value of the defined benefit pension obligation or the fair value of plan assets. The net of un-reported actuarial losses was MSEK 149 (164) at year-end. The amended accounting standard IAS 19 Employee Benefits becomes effective on 1 January 2013. This amendment mainly means that the unreported actuarial losses will be recognised in the Statement of Financial Position, and where the change in actuarial assumptions for the year is recognised against other comprehensive income. See also accounting principles (g) on page 54. Accordingly, the experience-based assumptions for measuring the pension liability will have a greater effect on the Statement of Financial Position than when applying the current financial accounting principles.

## Note 34 INFORMATION ON THE PARENT COMPANY

Höganäs AB (publ), Corporate Identity No. 556005-0121, is a Swedish-registered limited company with its registered office in the municipality of Höganäs, Sweden. Höganäs' class B shares are quoted on the Mid Cap list on NASDAQ OMX Stockholm. The address of the head office is Höganäs AB, SE-263 83 Höganäs, Sweden.

The consolidated accounts for 2012 comprise the Parent Company and its subsidiaries, collectively termed the Group.

## Note 35 ACQUISITION OF OPERATION

In September 2012, Höganäs decided to acquire all the shares of unlisted company Fcubic AB, whose corporate name was changed to Digital Metal AB. The agreed completion date was 1 November 2012, when controlling influence was obtained over this company.

This company conducts business in the development of additive manufacturing technology for producing metal components and systems. Through this acquisition, the Group is expected to become a leading vendor of system and component solutions in the 3D printing of metal components. The acquired operation's estimated annualised contribution to the Group's revenues is MSEK 2.5, and its contribution to the Group's income after financial items at MSEK 0.3. The contribution for the year for the period the company was consolidated in the Group was insignificant amounts.

The purchase price was cash-based and amounted to MSEK 30, of which MSEK 7.5 was settled on completion and MSEK 22.5 was entered as a liability on the completion date. The deferred payment of MSEK 22.5 will be allocated in three equally sized yearly payments of MSEK 7.5 over a period of three years from the completion date.

| MSEK | 1 Nov. 2012 |
|---|---|
| **Effect of acquisition** | |
| Intangible assets* | 39 |
| Current receivables | 1 |
| Cash and cash equivalents | 1 |
| Current liabilities | -1 |
| Deferred tax liability | -10 |
| **Net identifiable assets and liabilities** | **30** |
| Goodwill on consolidation | - |
| **Purchase price** | **30** |
| Un-settled purchase price | -22 |
| **Purchase price, settled** | **8** |
| Acquired cash and cash equivalents | -1 |
| **Cash flow, net effect** | **7** |

* The value of acquired intangible assets of MSEK 39 has been preliminarily measured in anticipation of the definitive measurement of these assets.

All the surplus values of the company are considered attributable to patents held by the company. Accordingly, no goodwill arose on the business combination. Acquisition-related expenses amount to MSEK 0.1 and are fees to consultants in tandem with due diligence. These expenses have been recognised as administration expenses in the Consolidated Income Statement.

## Note 36 SUBSEQUENT EVENTS

**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 has undertaken 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 financed 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 offering before Höganäs' Board of Directors had sufficient opportunity to take a decision on the offer considering the close relations prevailing between some Board members of Höganäs and Lindéngruppen, Note 32. The scheduled acceptance period for the offer is from 15 March 2013 to 24 May 2013, both dates inclusive. The scheduled settlement date is 3 June, 2013.

# AUDIT REPORT

*To the annual meeting of the shareholders of Höganäs AB (publ)*
*Corporate Identity No. 556005-0121*

## Report on the Annual Accounts and Consolidated Accounts

We have audited the annual accounts and consolidated accounts of Höganäs AB (publ) for the year 2012. The annual accounts and consolidated accounts of the Company are included in the printed version of this document on pages 36-95.

### *Responsibilities of the Board of Directors and the Chief Executive Officer for the Annual Accounts and Consolidated Accounts*

The Board of Directors and the Chief Executive Officer are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Chief Executive Officer determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Chief Executive Officer, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinions*

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2012 and their results of operations and cash flows for the year in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts. We therefore recommend that the annual meeting of shareholders adopt the Income Statement and Balance Sheet for the Parent Company and the Income Statement and Statement of Financial Position for the Group.

## Report on Other Legal and Regulatory Requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the Company's profit or loss and the administration of the Board of Directors and the Chief Executive Officer of Höganäs AB (publ) for the year 2012.

### *Responsibilities of the Board of Directors and the Chief Executive Officer*

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss, and the Board of Directors and the Chief Executive Officer are responsible for administration under the Companies Act.

### *Auditors' Responsibility*

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the Company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden. As a basis for our opinion on the Board of Directors' proposed appropriations of the Company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any board member or the Chief Executive Officer. We also examined whether any board member or the Chief Executive Officer has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinions*

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Höganäs, Sweden, 15 March 2013
KPMG AB
Helene Willberg

Helene Willberg
Authorised Public Accountant

# FIVE-YEAR OVERVIEW AND QUARTERLY DATA

## FIVE-YEAR OVERVIEW

| MSEK | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Net sales | 6,103 | 4,571 | 6,671 | 7,081 | 6,712 |
| Operating income | 527 | 298 | 1,114 | 1,071 | 903 |
| Net financial income and expenses | -44 | -27 | -30 | -47 | -35 |
| Income before tax | 483 | 271 | 1,084 | 1,024 | 868 |
| Net income | 394 | 206 | 804 | 762 | 698 |
| Operating margin, % | 8.6 | 6.5 | 16.7 | 15.1 | 13.5 |
| Net margin, % | 7.9 | 5.9 | 16.2 | 14.5 | 12.9 |
| Total assets | 5,642 | 5,118 | 5,667 | 5,936 | 5,735 |
| Shareholders' equity | 2,406 | 2,653 | 3,239 | 3,514 | 3,767 |
| Capital employed | 4,370 | 3,932 | 4,137 | 4,475 | 4,400 |
| Return on capital employed, % | 12.8 | 7.2 | 27.6 | 24.9 | 20.3 |
| Return on equity, % | 15.2 | 8.1 | 27.3 | 22.6 | 19.2 |
| Equity/assets ratio, % | 42.6 | 51.8 | 57.2 | 59.2 | 65.7 |
| Net indebtedness | 1,743 | 1,149 | 792 | 879 | 485 |
| Debt/equity ratio, multiple | 0.72 | 0.43 | 0.24 | 0.25 | 0.13 |
| Risk capital/assets, % | 48.0 | 57.6 | 63.9 | 65.4 | 73.0 |
| Interest coverage ratio, multiple | 12.0 | 11.0 | 37.1 | 22.8 | 25.8 |
| Rate of capital turnover, multiple | 1.48 | 1.10 | 1.65 | 1.64 | 1.51 |
| Operating cash flow | 217 | 629 | 410 | 331 | 692 |
| Cash flow after investments | 220 | 626 | 410 | 331 | 685 |
| Investments | 375 | 265 | 302 | 466 | 440 |
| Average number of employees | 1,589 | 1,440 | 1,619 | 1,696 | 1,705 |
| Net sales per employee | 3.84 | 3.17 | 4.12 | 4.18 | 3.94 |

## QUARTERLY DATA

| | Q 1 | Q 2 | Q 3 | Q 4 | Q 1 | Q 2 | Q 3 | Q 4 |
|---|---|---|---|---|---|---|---|---|
| MSEK | 2011 | 2011 | 2011 | 2011 | 2012 | 2012 | 2012 | 2012 |
| Net sales | 1,770 | 1,869 | 1,810 | 1,632 | 1,813 | 1,808 | 1,602 | 1,489 |
| Operating income | 282 | 302 | 275 | 212 | 282 | 285 | 205 | 131 |
| Operating margin, % | 15.9 | 16.2 | 15.2 | 13.0 | 15.6 | 15.8 | 12.8 | 8.8 |
| Income before tax | 280 | 294 | 251 | 199 | 274 | 273 | 200 | 121 |
| Net income | 208 | 217 | 185 | 152 | 203 | 202 | 148 | 145 |
| Earnings per share, SEK | 5.97 | 6.24 | 5.32 | 4.37 | 5.83 | 5.81 | 4.24 | 4.16 |

## Definitions

**Capital employed**
Total assets less non-interest-bearing liabilities, deferred tax liabilities and other provisions.

**Cash flow after investments, SEK/share**
Cash flow net of investments in relation to average number of shares adjusted for share buy-backs.

**Debt/equity ratio**
Interest-bearing debt less cash and cash equivalents and other interest-bearing receivables in relation to shareholders' equity.

**Earnings per share, SEK**
Net income in relation to average number of shares, adjusted for share buy-backs in accordance with IAS 33.

**Equity/assets ratio**
Total shareholders' equity in relation to total assets.

**Net indebtedness**
Long-term and current interest-bearing liabilities and provisions for pensions less cash and cash equivalents.

**Interest coverage ratio**
Income before tax plus net interest income/expenses and exchange rate differences on financial loans in relation to net interest income/expenses.

**Investments**
Investments in fixed assets excluding acquisitions.

**Net margin**
Income before tax in relation to net sales.

**Operating cash flow**
Cash flow after investments but before acquisitions or divestments of companies/operations.

**Operating margin**
Operating income in relation to net sales.

**Rate of capital turnover**
Net sales divided by average capital employed.

**Return on capital employed**
Income before tax plus net interest income/expenses and exchange rate differences on financial loans in relation to average capital employed.

**Return on equity**
Net income in relation to average shareholders' equity.

**Risk capital/assets**
Total shareholders' equity and deferred tax liability in relation to total assets.

**Shareholders' equity per share, SEK**
Shareholders' equity in relation to the number of shares at year-end adjusted for share buy-backs.

Höganäs AB is the world's leading producer of iron and metal powder. Based on a 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 accumulated in-depth application competence. Thus, in partnership with its customers, Höganäs helps create, as examples, the car components, white goods and water and exhaust treatment products of the future. 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.

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