

Power of Powder

"With our customers and partners,
we're continuously expanding the
usage of powder technology to
new application segments."



The year in brief

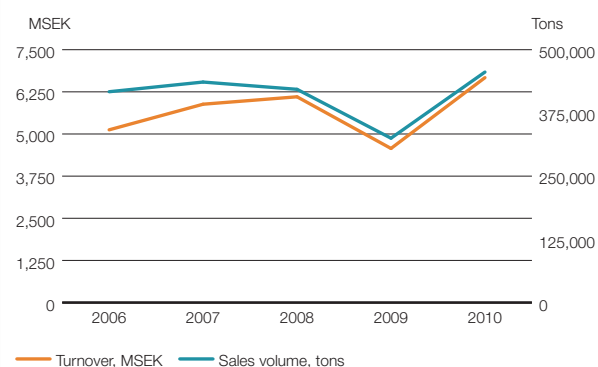
- The best year ever in terms of sales volumes and earnings
- High production rate end to end in the value chain
- Improved margins thanks to cost focus and increased capacity utilisation
- Strong cash flow despite metal price escalation and increased working capital tie-up
- Launch of unique electric motor
- Breakthrough for chrome material in connecting rods



Group key ratios

	2008	2009	2010
Net sales, MSEK	6,103	4,571	6,671
Operating margin, %	8.6	6.5	16.7
Income before tax, MSEK	483	271	1,084
Income after tax, MSEK	394	206	804
Equity/assets ratio, %	42.6	51.8	57.2
Return on capital employed, %	12.8	7.2	27.6
Earnings per share, SEK	11.31	5.92	23.11
Dividend, SEK	3.00	3.00	10.00
Average number of employees	1,589	1,440	1,619

Turnover and sales volume



The Power of Powder—from idea to reality



BUSINESS
INTELLIGENCE



UNDERSTANDING
NEEDS



APPLICATION IDEAS

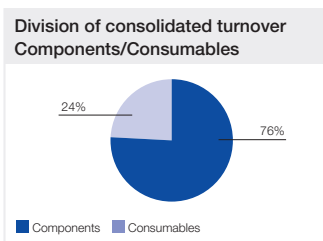
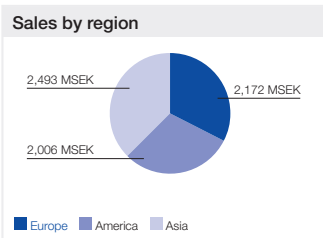
Höganäs in 30 seconds



Höganäs is the world leader in metal powder, with in-depth application know-how of utilising the unique qualities of powder to achieve cost benefits, superior performance and reduced environmental impact.

We have achieved our status in the business by delivering products with high quality and consistency that satisfy customer-specific standards.

We are continuously developing new application segments in partnership with customers and end-users. This enables us to ensure the continued positive growth of powder technology. We call the endless possibilities enabled by metal powder the "Power of Powder."



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CUSTOMER
COLLABORATIONS



CUSTOMER
BENEFIT



VALUE FOR
HÖGANÄS

An excellent year

Höganäs achieved record levels of sales and earnings in 2010. It was a year when we also benefited from market opportunities as product demand increased worldwide. This was the result of a continued recovery from the global financial crisis, and even more importantly, it is evidence that our new strategy is working. Our healthy earnings provide us with an opportunity to continue long-term product and organizational development to assure sustained long-term growth.

Höganäs' strategy is to work the value chain. The more we find out about our customers and end-users, the better we get at developing products and services that they really need. Our global presence and application know-how mean that we can now partner our customers in creating a better future for the Powder Metal industry.

Increased global demand

The global financial crisis resulted in substantial shrinkage of metal powders in 2009. The recovery started in late-2009 and continued through the first half-year 2010. Demand then stabilised at a higher level in the second half, leading to record demand for Höganäs' products.

In 2008, just before the financial crisis broke out, Höganäs acquired Kobe Steel's powder business in North America. Thanks to a demand increase in 2010, it generated very positive volumes, further securing our status as number two on the North American market. Our other operations in North

America, at Niagara Falls and Johnstown, encountered sharply increased demand.

In South America, sales to the car industry remained brisk through the year. In the Consumables business area, sales rallied rapidly during the year. Demand also rose in Europe, but did not match the record levels of the first half-year 2008. One explanation was reduced car sales due to the cessation of scrapping premiums, in Germany for example. But the negative progress of car sales turned subsequently, thanks to increased exports to Asia.

Asia, which became Höganäs' biggest market in 2009, continued to perform strongly. Sales reached record levels, thanks primarily to a brisk upturn for the car industry. And this despite Japan not attaining the high levels of 2007.

New applications

We witnessed expanding customer activities in new applications/segments. Components exposed to harsh environments, surface coatings with laser technology and component solutions for new electromagnetic applications attracted the most attention.

We are proud to say that we now have a really good organisation and infrastructure to create and utilise innovation. The combination of the PoP Centre, where we work on customers' processes,



our test centre for powder development where we can test and develop new powders quickly and cost-efficiently, and our Tech Centres across Höganäs' world, have enabled us to operate as an extension of our customers' research and development efforts. We aspire to achieve this unique position, to nurture global market growth.

A motor showcasing Somaloy®

Our revolutionary electric motor, developed on our technology based on SMCs (soft magnetic composites), Somaloy®, was launched in 2010. This motor is designed for electric bicycles, but also offers the same weight, volume and efficiency benefits in fans, pumps and generators.

This project has clearly demonstrated the importance of presenting finished concepts and solutions when we introduce all-new technologies. The interest and enthusiasm of our customers was far greater, and when prospective users were able to physically examine the motor and compare it to traditional alternatives, this resulted in really fast progress. When we moved forward from conceptual discussions to a well-designed product, the fantastic possibilities of SMC powders presented themselves. The launch of the Simulated Pole Motor has led a substantial increase in interest for our Somaloy® technology. To me, this represents an excellent example of how we are moving forward in the value chain.

Launching gear-wheels for cars

Gear-wheels for car gearboxes is another application that could accelerate the market growth of metal powder. Höganäs is working globally to develop and launch metal powder-based gear-wheels as an environmentally efficient and cost-effective alternative to traditional solutions.

As an essential component of this progress, the gear-wheels need to be tested in demanding environments. Accordingly, in 2010, Höganäs sponsored the Swedish "Ramona Karlsson" rally team. A number of gear-wheels in the gearbox of the 2010 team car were replaced with powder based components. At the end of the season, we could conclude that the powder-based gear-wheels exhibited less wear than their traditional counterparts. We will be extending our testing in 2011 to include all gear-wheels.

Our Simulated Pole Motor and rally gearbox are two great examples of living according to Höganäs' vision of pushing the limits of metal powder. We will be continuing our efforts on this path in 2011.

With a large number of new development projects across our focus segments, I strongly believe we will be able to develop exciting new business for the future.

Results of operations for the year

Operating income for the year was MSEK 1,114 (298). The additional contribution from 40% higher sales volumes was substantial. Because we achieved the sales increase without significant new investment, our cost absorption was very positive. Our earnings comparison with 2009 is also affected by a good rate of inventory turnover, especially in the first half-year 2010, while it was much lower than normal in the first quarter of 2009,

which was then charged with relatively high metal costs. The Swedish krona appreciated significantly in 2009, from a very weak level at the beginning of the year, and this appreciation continued in 2010. Accordingly, exchange rates were less favourable in 2010 compared to the previous year.

Market conditions were relatively stable and activity levels were high right through the value chain in the year. We think that demand conditions remain strong in South America and Asia, apart from Japan. It is reasonable to expect a gradual improvement in North America, while market progress in Europe is uncertain, depending upon the level of economic growth in heavily indebted countries.

Höganäs, Sweden, 7 February 2011

Alrik Danielson
CEO and President





BRIC countries

- GDP growth 2010: 4–11%
- 25% of the earth's surface
- 40% of the population
- 25% of global GDP



Business intelligence...

Höganäs' long-term prospects of growth and profitability are controlled by our ability to adapt ourselves to major exogenous trends and exploit the new business opportunities that they create. Accordingly, we put a big emphasis on business intelligence.

Each year, we conduct a thorough analysis of progress on our markets, as a part of the management and Board's review of corporate strategies. Each region is responsible for examining key sectors, technology segments and other relevant drivers, and reporting them to management. We also conduct continuous business intelligence within the auspices of our close collaboration with customers.

One of the major over-arching trends that we regard as central for our progress is the robust growth in many emerging economies, especially the BRIC countries—Brazil, Russia, India and China—where wealth is growing briskly and the middle class is burgeoning. This is creating new markets, and setting new standards in many sectors.

It also adds emphasis to the demands for the more efficient consumption of resources and energy, as well as robust environmental and climate change measures. This applies to these markets, but also to other regions. Many environmental problems, especially CO₂ emissions, are global. Increased wealth, and the resulting higher consumption and energy use in a continent, affects needs and behaviour over the whole planet.

Business intelligence illustrates the concrete needs that require new products and solutions. The usage of major metals and other elements is being optimised in many sectors. Growing economies need effective and more environmental transportation, especially in the big cities.

An impending water shortage requires more effective water purification. New land, previously unusable, has to be utilised for homes or agriculture. The shortage of food and water are questions that are becoming more urgent to resolve from many perspectives, not merely environmental. Our prospects for continued global growth and the spread of prosperity depend on them.



From...

The world's big cities are getting bigger, and traffic in them is growing. Access is poor, parking is impossible to find, and this is having a negative effect on the environment. Meanwhile a new urban generation is emerging, who want to balance an efficient and comfortable life with environmental awareness.

...creates need insight and ideas...

Höganäs has identified six segments where we see especially high potential to create cost efficiency and environmental benefits using powder technology. We have appointed specialist groups in each segment, whose assignment is to develop an understanding of needs for application ideas and customer collaborations. We call them our Global Development Teams.

Powder metallurgy can make many components more efficient, lighter and more environmental. Gear-wheels in the automotive industry are one example. There is a long-term trend towards increased usage of powder metallurgical components.

Surface coatings with powder generate lower costs and environmental impact for applications where wear resistance is important, such as propeller shafts and hydraulic cylinders. Unusual and costly metals with high resistance to abrasion and corrosion are then only used in this powder and applied to common, low-cost metals instead of the complete application being produced in the rare metal.

Brazing with powder-based braze flux gives optimal results despite the powder having a

lower content of costly or un-environmental metals like nickel and copper than traditional equivalents. This results in greater strength, plus financial and environmental savings.

Electromagnetic applications, such as electric motors produced from SMC powders, are lighter, more compact and cheaper than traditional motors with, simultaneously, higher efficiency. They are also easier to manufacture and recycle.

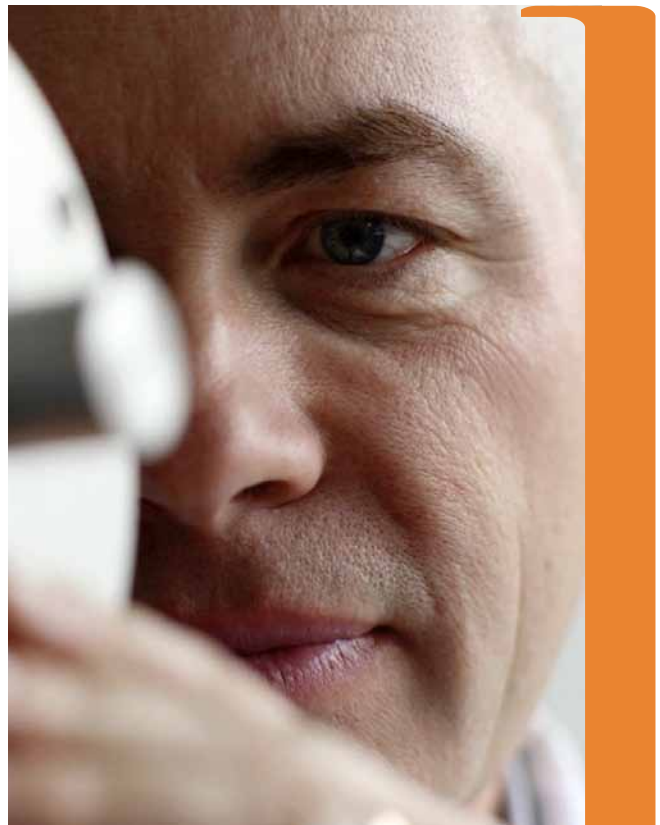
Filters are cheaper and have better characteristics with metal powder. They withstand higher temperatures and are more efficient with longer useful lives. Key application segments are exhaust purification in diesel engines and water treatment in waterworks. Metal powder can also be used directly for decontaminating water or land.

Injection moulded components are produced with the aid of a technology that offers the same benefits as pressed components, simultaneous with greater design flexibility. In the future, many forged or cast components should be suitable for injection moulding with powder.

...idea...

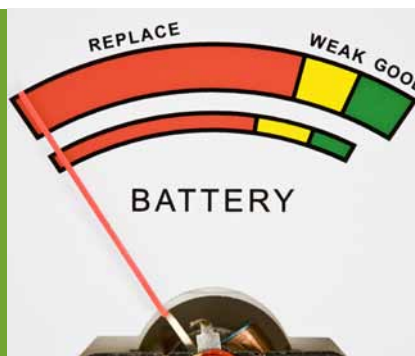
Electric cycles are rapidly becoming more popular. They are environmentally efficient and can be used by anyone anywhere, unlike electric mopeds.





...to...

Unfortunately, these bicycles have poor range, and motors risk overheating on hills. Their motors are often unwieldy and heavy, which puts off some consumers.



We are developing products with our customers that create benefits...

We base our product development from market needs. Our Global Development Teams (GDTs) identify needs in different customer segments. For example, our surface coatings team is looking at future development in sectors where applications are exposed to intense wear, resulting in high cost.

The automotive industry is such a segment. Engines in all types of vehicles—cars, trucks, construction machinery and ships—contain valves that are exposed to intense wear. If these valves were not designed for maximum wear resistance, engines would have shorter useful lives, increased fuel consumption and worse environmental impact.

The surface coating team has analysed the progress, and noted that alternative fuels are gaining more importance, setting new standards for surface coatings. The team has contacted car producers who have been offered a collaboration on developing new powders to satisfy these new standards. After identifying

the strains, chemicals, liquids and similar that valves are exposed to, a requirement specification is formalised. Höganäs then tests and develops new powders in application environments at the PoP Centre.

The result is a new powder optimised for maximum wear resistance, which saves fuel and the environment when vehicles are used. The production process is also more efficient thanks to Höganäs' higher powder quality. Tests demonstrate that valve producers consume a lower volume of powder and less gas by utilising Höganäs powder than competitors' offerings. The whole process is also significantly faster and cheaper.

All GDTs work in a similar way on transforming an understanding of needs into concrete development projects. In some cases, we test and develop prototypes independently in the PoP Centre before contacting potential clients. Often, our GDTs approach end-customers directly, jointly with customers and partners.

...reality.

Höganäs has developed an electric motor from SMC metal powders. This powder's three-dimensional magnetic characteristics make the motor smaller and lighter than traditional alternatives. It is also significantly more efficient, giving cycles superior range. The motor is now in tests with cycle producers in Europe, Asia and North America.





Material losses

The Starmix Boost mix concept enables material losses to be cut by up to 95%. Thanks to Höganäs' new approach to processing powder during pressing, the need for post-processing components reduces.

-95%

More power

Sterling generators can be made smaller and lighter by using SMC powders in components. Boilers fitted with this type of generator enable households to extract up to 1,000 W from the generator, for their own consumption or sale back to public networks.

+1 kW

Cost of materials

Using iron-based braze flux instead of nickel cuts material costs. Nickel is recommended for brazing in demanding applications in heat exchangers in the automotive and white goods industry, where good anti-corrosive properties are required. Höganäs' recently developed iron powder-based braze flux offers a cost-efficient alternative to nickel brazing.

-10 - 30%

...and value for Höganäs

Höganäs is a leader in powder metallurgy. As the sector's frontrunner, we work to drive development of powder metallurgy by finding new application segments for metal powder. In this way, we are extending the market and enabling continued market growth.

By developing application know-how and creating close relations with our customers, we can also integrate forward in the value chain. In this way, we can offer our customers collaborations and services at several levels in the value chain and get more exposure to them. This is how we create sustainable profitable growth.

Our financial goals are to grow by 6-8% per year on average over a business cycle, to achieve an operating margin of 15% and return on capital employed of 20%. Over the past five years, average growth has been consistent with our objective, until the financial crisis in late 2008. Then, the outlook was disrupted by a very sharp downturn, and

subsequently a significant recovery in 2010. Since 2005, we have progressed from an operating margin of 10.0% to 16.7%, and from returns of 12.0% to 27.6%. This demonstrates that our strategy creates value for shareholders.

There are also other indicators that clearly demonstrate that we are building value for the long term with a new market position and long-term customer relations. In 2010, we started several development collaborations with customers, such as surface coatings on propeller shafts, brazing cooling systems and inductor material for energy systems. We introduced several new products that were unique on the market. For example, our GDTs introduced new powder with a lower content of costly alloy metals for high-strength components, and an effective, environmental lubricant for powder compacting.

» Power of Powder

Höganäs strategy of working the value chain means we are pushing the limits of powder technology. Our solutions create value and measurable benefits for our customers and shareholders. Thanks to this strategy, we have been able to benefit from the global economic recovery in 2010, and advance our market positioning.



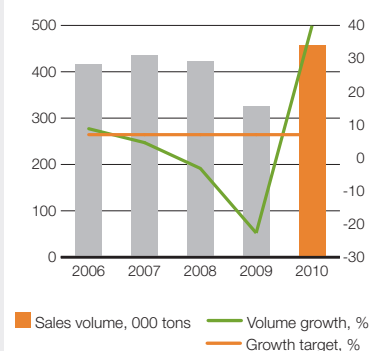
+816 MSEK operating income

+40% sales volume

Volume growth

Our objective is to grow by 6 to 8% on average over a business cycle. Over the past five years, our average growth has been in line with target, until the financial crisis in late-2008. The outlook was then disrupted by a very sharp downturn, and then, a significant recovery in 2010.

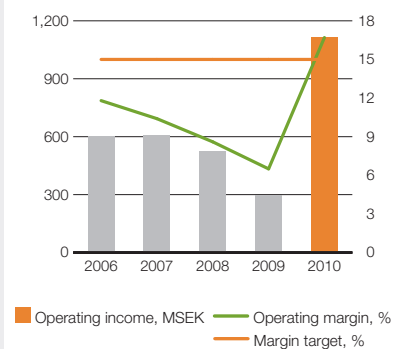
Sales volume



Operating margin

Our goal is to achieve an operating margin of 15%. We beat this target in 2010 with an operating margin of 16.7%. We were very close to this goal in spring 2008, prior to the financial crisis.

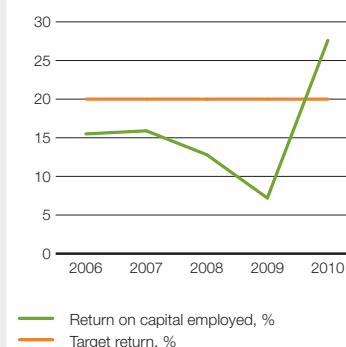
Operating margin



Returns

Our goal is to achieve a return on capital employed of 20% over a business cycle. Since the financial crisis, we have exceeded this goal.

Return



Components

Components makes up some 75% of Höganäs' turnover and covers the production of all powder that is refined into components. Iron and metal powders with various alloys are delivered to component producers in the powder metallurgical industry. As part of our work on pushing the limits of powder metallurgy, we also market the benefits of metal powder to end-users.

Metal powder is pressed and sintered into electrical or mechanical components that are delivered to product and system producers or directly to OEMs (Original Equipment Manufacturers). Many power transmission components in cars—like sprockets and synchromesh clutch hubs in gearboxes, shock absorber components and brakes—are made of powder components because they are lighter, reducing fuel consumption.

Components today

Using powder components instead of forged or cast materials avoids milling and grinding to produce finished components, reducing wastage. Reduced consumption of materials and higher yields cut the cost of materials for powder components, and fewer labour processes shorten processing times. Efficiency increases, and production costs reduce. Because the manufacturing process consumes less energy, environmental impact is also mitigated.

Consistent powder quality, lubricants, mixing techniques and increased production rates for compacting are key development segments for an effective production process for component producers.

Components tomorrow

Long-term development work is focusing on new application segments to utilise the many benefits of metal powders to meet more stringent requirements for energy efficiency and reduced environmental impact. Hybrid engines and fuel cell engines are examples of tomorrow's products and powder metallurgy is well-suited to satisfy these needs.

Long-term development work in Components is conducted in three primary segments; powder metallurgy, SMC components and injection-moulded components.

Major advances in 2010

We launched a new high-torque electric motor in the year that is smaller, lighter and cheaper than comparable offerings. Environmental impact is alleviated by producing the stator and rotor from scrap raw material; the usage of rare earth metals is reduced and the motor is easier to recycle. This motor can be used in electric vehicles like cycles and scooters, as well as fans and pumps.

Other major launches in the year include a new powder with lower alloy content for high-strength components and powder with a new lubricant that has a lower environmental impact because it is burnt off during sintering.



backmansfoto.se

Ramona—the toughest test

Germany's Getrag—one of the world's leading gearbox producers—has tested powder gear-wheels in real environments. Gear-wheels produced with Höganäs powder and technology satisfy Getrag's requirements for gearboxes that last for at least 200,000 km.

But Höganäs has chosen to put its gear-wheels to an even tougher test. In 2010, Höganäs sponsored Ramona Karlsson, one of Sweden's leading rally drivers. Powder-based gear-wheels have been installed instead of traditional equivalents in the gearbox of her Mitsubishi Evo IX, which powerful engine develops 300 bhp.

Rally cars at the top level are exposed to extreme stresses. Engines and drive-trains, including gearboxes, are stripped down every 1,000 km, and the most load-bearing components replaced. When Ramona's engine and gearbox was stripped down at the end of the season, the gear-wheels produced from powder actually had less wear damage than the cast components.

Market segments

PM components
SMC components

Applications

Synchromesh clutch hubs in manual gearboxes

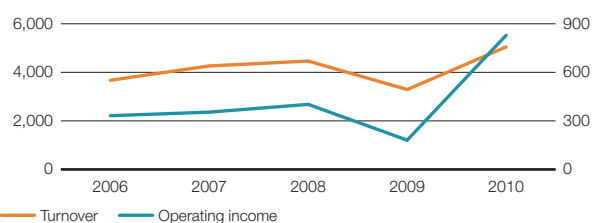
Gear-wheels in electric hand tools

(Stator) components in electric motors

Business area key ratios

MSEK	2010	2009
Net sales	5,046	3,292
Operating income	829	181
Operating margin, %	16.4	5.5
Assets	4,086	3,524
Investments	231	193

Turnover and operating income, MSEK



Consumables

Consumables represents some 25% of Höganäs' turnover and produces and sells metal powder and high-alloy metal powder used mainly in processes such as surface coating, welding and brazing. Different types of powder are also used in a raft of segments such as the chemical and metallurgical process industries, as filters for purifying water and exhaust, and as supplements in food and animal feed.



Höganäs delivers powder to producers of welding materials, users of brazing and surface coating technologies, and to producers of food and animal feed. Its deliveries are primarily to OEMs, but also to their subcontractors.

Consumables today

Metal powder is hard wearing, withstands high temperatures and has good anti-corrosive qualities, so it is well-suited to a raft of different applications. When iron powder is used in welding electrodes, welding characteristics and the quality of the welded product is enhanced. High area in relation to weight compared to ordinary plate, for example, means that powder is well suited for purifying exhaust and liquids. In the textile industry, polymer molecules are used to reduce process downtime and enhance the quality of fibres.

Metal alloys that are hard wearing, withstand high temperatures and have good anti-corrosive qualities are used as surface coatings on materials and components exposed to severe wear.

Metal powder can also be used for the direct decontamination of polluted land. Groundwater absorbs pollutants, and can quickly contaminate large areas. Water is purified by these pollutants binding to

metal powder particles.

By adding very small and pure metal powder particles to food and animal feed, it is possible to combat iron deficiency, which is common. Powder is used in cereals, flour and pasta, and to extend the shelf lives of daily staple foods by absorbing oxygen in packaging.

Consumables tomorrow

Metal powders suit a raft of applications. Long-term development work is focused on new application segments to utilise the many qualities of metal powder. The three segments of the future are surface coatings, brazing and purification.

Major advances in 2010

In 2010, we upscaled investments in our Tech Centre in Shanghai for the World Expo. Thanks to a sharper application focus, this attracted new business in surface coating and welding products.

Sales volumes in South America more than doubled in 2010 in year-on-year terms. High sales volumes in the steel and casting industries were due to brisk progress in the building and construction industries, and infrastructure investments.

Arcos sets the standards

Arcos Hydraulik produces hydraulic cylinders for especially demanding applications in the paper industry, mines, offshore and other segments. Arcos surface coats most hydraulic pistons with hard chrome plating to increase their wear strength and anti-corrosive qualities.

Hard chrome plating cannot cope with the most challenging corrosive environments, and at present, there are no alternatives other than solid piston rods made of stainless steel or titanium or nickel alloys. Solid pistons have shorter durability and the material is costly.

Arcos and Höganäs are now developing a material to satisfy the requirements for wear resistance and to withstand extremely corrosive environments in a joint project. Höganäs is contributing its strength in materials and processes, and Arcos its knowledge of the standards required of the coating.

The environmental impact of hard chrome plating means that there is great interest in alternative coatings with equivalent wear resistance, extending to other hydraulic applications.

Market segments

Surface coating, friction materials, welding, brazing, filters, food and feed supplements

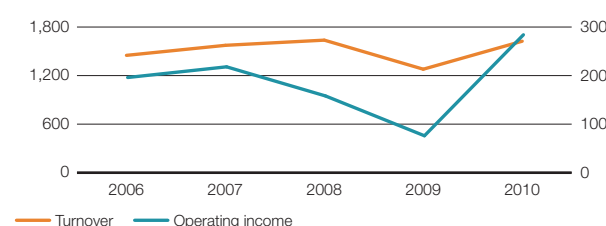
Applications

Coating of rollers, Brazing heat exchangers, Food supplements

Business area key ratios

MSEK	2010	2009
Net sales	1,625	1,279
Operating income	285	77
Operating margin, %	17.5	6.0
Assets	1,517	1,483
Investments	71	72

Turnover and operating income, MSEK



Human resources

In 2010, Höganäs continued its work on strengthening its organisation and taking its business forward. Internal corporate communication, training projects and collective processes are contributing to improved stakeholding and the prospects of its people's development. Höganäs has introduced a profit sharing system for the entire Group, in total 1,647 (1,456) employees across 15 countries at year-end 2010. Of this total, 15% (15) were women, and 35% (34) were graduates.

New tools support development

Over-arching HR work targeting a stronger organisation has now entered its next phase, with mapping transferring to execution. The previous focus was updating and securing policies to ensure that the organisation operated consistently in all parts of business. Now, collective templates and tools are in place, as are improved job descriptions and processes for annual appraisal interviews.

The Group-wide templates set minimum levels, but are tailored to local conditions. These tools support managers in their ongoing work of identifying and rewarding good performance, but also in identifying people's development potential. The objective of HR work is for Höganäs to be able to hire and retain valuable competence.

Höganäs launched a profit share system for all employees in the year. The Board has initiated the program to make it clearer for everyone to understand entrepreneurship and the importance

of making a profit. This contributes to motivation and stakeholding.

High commitment in Höganäs Business Academy

Höganäs Business Academy is a central initiative in the competence development segment. Over and above the initiatives conducted continuously throughout our business, this is a major training initiative to enhance our key people's understanding of Höganäs' strategic goals. It is also a vital forum to exchange best practice and create internal contact networks between employees from different segments and regions.

Some 30 participants from different parts of the Group took this training in 2010. Several members of Group management attended, contributing to the training in different ways.



Our people

1,647 employees

35% graduates

15 countries

Some of the regular themes of Höganäs Business Academy are;

- Höganäs' strategy and fundamental values
- Goals and tactical considerations
- Review of available resources in the form of support systems, processes and principles
- Company basics such as capacity utilisation, capital tied-up and cash flow.

Increased communication efforts

Höganäs conducted its biennial employee satisfaction survey in 2010. Despite Höganäs' business being affected by the recession of 2009, employees' confidence in the Company was unaffected, as was especially apparent in their opinions of job satisfaction and motivation. The employee satisfaction index often showed surprisingly similar results between countries, although some regional differences were apparent.

Again in this survey, the results indicated that employees view information and

corporate communication as an important segment. In response, corporate communication resources have been strengthened and new activities are being launched. One example is the updated staff magazine, published from the start of 2010. Each issue covers an important theme, such as our key concepts of Active, Brave and Caring.

Höganäs also decided on a new platform for a Group-wide intranet in the year. Its aims include making information more available to staff and offering more opportunities to leave feedback. The intranet should also encourage collaboration and the exchange of knowledge across regional and departmental boundaries.

Code of Conduct and global working environment project

Höganäs has had a Group-wide code of conduct in place since 2007, which deals with relationships with business partners, shareholders, employees and wider

society. This Code applies to all staff and Höganäs managers have special responsibility to act in accordance with the code and keep their staff continuously informed about its principles. The Code, available on Höganäs' website, has three main sections;

- Business ethics
- Social and human rights
- The environment.

In 2010, Höganäs initiated an overall project to reinforce its global working environment efforts. Its goal is to analyse the conditions and results of different regions and enable good examples of processes and preventive measures to be highlighted.



Continued work on sustainable development

For Höganäs, sustainable development means economic sustainability goes hand in hand with environmental and socially sustainable development. Höganäs' prime contribution to this process is our products and the improvements they contribute to, but also our ongoing work on reducing the environmental impact of production and processes.

Höganäs products have good prospects on the market with increased consciousness of environmental and climate issues, and the significance of the conservation of resources. With their unique qualities, components produced using metal powder technology can contribute to the development of new energy systems, such as the next generation of electric motors and designs for distributing renewable energy like solar and wind power generated electricity. In regions with limited access to water, specially developed powders can be used to purify groundwater from pollutants.

Höganäs' PoP Centre, a forum for stimulating innovation in partnership with the customer and the customer's customer, is a vital platform for continued development. Through the conscious selection of materials, more intelligent application and process optimisation, products are developed with environmental consideration. New electromagnetic iron cores, that are lighter, stronger and more energy-efficient with higher torque than alternatives developed for new vehicle electric motors, are just such an example. On occasion, markets have to be created, and that's why Höganäs intends to demonstrate the benefit of different compo-



Approaches to sustainable development

Product development and processes in Höganäs feature over-arching approaches that set a framework for its work.

Continuously improved alternatives

All development work should achieve reduced environmental impact compared to previous products or processes, and accordingly, an analysis of environmental impact is included in the supporting data of decision paths.

For example, Höganäs offers chrome or silicon as an alloy element on certain products, which reduce their environmental impact compared to the alternatives of nickel, manganese, molybdenum or copper. The zinc-free material Intralube E can replace previous generations of lubricant in the compression moulding of metal powder.

Processes that save time, material and energy

Often, production with powder technology offers superior overall finances right through the production chain, and for the customer. By producing components from metal powder, processes can be shortened through fewer production stages. In addition, metal powder components can be hardened immediately after sintering with a forced cooling process, which saves time and energy overall. Waste can be virtually eliminated with powder technology, conferring more efficient utilisation of materials.

Conservation of resources and high performance

Höganäs' ambition is to keep optimising the utilisation of resources, with continued satisfactory or superior product performance. This requires continued development of new technology, e.g. the usage of modelling software to optimise components design. Calculations enable Höganäs to identify rationalisation opportunities that do not compromise performance, but actually enhance it. To be able to optimise the kinetic energy of a gear-wheel, and thus its performance in a gearbox, for example, software models the optimal location of apertures that reduce weight and material consumption, without adversely affecting strength.

Reduced emissions

-53% CO₂ **-90% SO₂** **-46% NO_x**

Emissions per ton of material produced have gradually reduced since the mid-1980s. Nowadays, emissions are close to what is possible with current technology because iron and steel production is dependent on coal, which causes CO₂ emissions from the process.

nents produced by its products in energy systems in demonstration projects.

By driving its own and sector-wide research in powder metallurgy, Höganäs is taking the development of application segments for metal powder forward.

Strategic sustainability work moves forward

Höganäs continued its work on environmental and sustainability issues in 2010. Its Group-wide Corporate Competence Centre is responsible for coordinating this collective work. Based on a risk analysis of matters highly relevant to Höganäs from a sustainability perspective, a number of segments have been prioritised for this work; energy, supplier conditions, residual products and waste. Safety in the workplace is another priority running in parallel in HR work. Common key performance indicators linked to these segments were formulated in the year.

Energy strategy

A Group energy strategy has been formulated, based on the results of the energy mapping conducted in Sweden in 2009 and the US in 2010. It is a key component in Group-wide work in priority segments. Selected components from the energy strategy:

- Project handbook formalising product and process development to include a dedicated section on energy
- All regions should have energy management systems
- Each regional management team should have an energy manager
- All regions should also prepare a three-year plan for energy work, reporting to Group management.

In addition, a longer payback period for investments in energy efficiency measures was accepted, enabling more measures to be executed.

Processes for suppliers

Progress was also made in the priority segment of suppliers in the year. The

previous focus on quality, delivery and the environment was extended to include social responsibility and ethics. New routines and forms were developed for suppliers. They differ somewhat based on the category of the supplier, such as raw materials. A Key Commodity Team in purchasing will be visiting a number of suppliers in the year, starting in 2011. Work on preparing decision-support data for the suppliers to be prioritised in the first phase is ongoing.

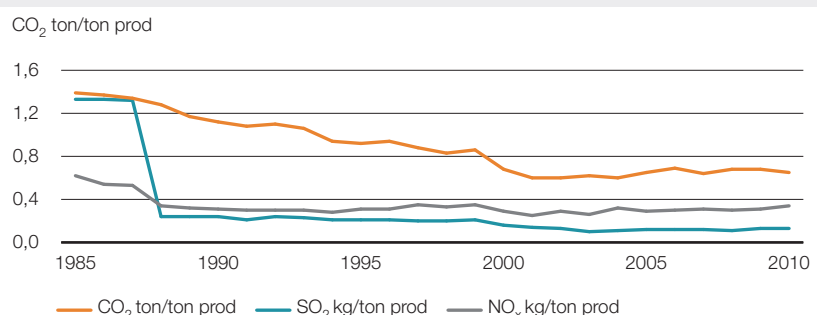
Systematic environmental work

Höganäs works systematically to reduce the environmental impact of its own business in the short and long term. Its Environmental Policy is the Group's collective control document for key environmental issues and states guidelines on energy, CO₂ emissions, the conservation of resources and wastage. Good environmental performance strengthens Höganäs' offering and competitiveness, by identifying new opportunities and creating more cost-efficient production.

All the Group's production facilities

Emissions for 1985-1999 are for the Swedish production facilities. Emissions from 2000 onwards are from the Group's total operations.

Emissions per produced ton



have ISO 14001-certified environmental management systems and are regularly audited by third parties. This sets standards for the continuous improvement of results. Training all employees on environmental issues is an important prerequisite for being able to realise improvements. Höganäs assesses its suppliers' environmental work and encourages the implementation of certified management systems in their operations.

Efficient utilisation of resources

Höganäs has good prospects of reducing its environmental impact through the efficient utilisation of resources. Some two-thirds of its input materials are recycled iron scrap. Pure iron ore is still required to be able to achieve the product characteristics and qualities customers want, and this constitutes the remainder of input materials.

Powder production results in a small amount of oversize particles that are too large for common powder mixes. The way Höganäs Brasil Ltda has employed the qualities of this oversize powder as a basis for creating a series of high-value products for the aluminium industry serves as an example of the classic 'Höganäs way' of solving a resource problem. Simultaneously, unnecessary re-smelting of processed metals is avoided. The metal tablets, which somewhat resemble hockey pucks, have been a great success so far, and Höganäs Brasil has already secured over 50% of this local market. Continued expansion is expected, which has also created new jobs.

Research and development for increased energy efficiency

Research work is decisive for Höganäs retaining its competitive edge, continuing to develop its knowledge of powder technology and how to utilise its environmental benefits. Höganäs conducts in-house and sector-wide research, through projects including the Swedish Steel Producers' Association's energy program. Projects are ongoing to develop and rationalise the energy consumption of arc furnaces when producing steel from iron sponge or scrap. Another Swedish Steel Producers' Association project Höganäs is really interested in is intended to utilise and recycle slag, a residual product from smelting iron, as a raw material for construction.

Conditions for operations

Höganäs' business is subject to regulatory permits in all countries where production is conducted. These permits mainly regulate production volumes, air and waterborne emissions, noise and waste. These permits may apply for a specified time or until further notice, but all Höganäs production plants have the necessary permits.

Permit cases in the year

Höganäs has applied to the regulator for an extension to continue the technical investigation to produce supporting data for remedial measures to improve the airborne environment.

In-depth mapping of the incidence of land contamination is continuing at the Swedish plants, and Höganäs has extended its inspection programme.

The first step of the process to apply for new environmental permits for plants at Höganäs began in the year, and are scheduled for filing with the authorities in 2012.

Trading in emission rights

Höganäs' plants at Halmstad and Höganäs, which generate some 90% of the Group's total CO₂ emissions, are covered by the EU trading system for CO₂ emission rights. The trading system is based on the number of available rights gradually reducing, with the deficit driving rationalisation measures to reduce CO₂ emissions where this is most cost-effective.

In the trading period of 2008-2012, energy-intensive industries receive free allocation of emission rights, to avoid impairing the global competitiveness of European businesses. Allocation is based on historical data of emissions and forecast needs.

Höganäs regards its allocation for 2008-2012 as sufficient for its operations. New regulations will alter the conditions for the trading period that begins in 2013 and extends until 2020. Accordingly, in 2011, Höganäs will be applying for allocation of free emission rights pursuant to the new regulations. Free emission rights will be allocated to businesses that compete on markets not covered by the trading system. Höganäs operates through European sector organisation EUROFER so it can influence and participate in dialogue on the trading system.

»» Energy recycling

Work on utilising excess heat from industrial processes to satisfy heating needs is an example of systematic environmental work at Höganäs' Swedish facilities. When excess heat is utilised, it replaces oil and natural gas as energy sources, reducing emis-

sions of greenhouse gases. Some excess heat is also delivered to district heating provider Höganäs Fjärrvärme AB. In 2010, Höganäs delivered 45.2 (28) GWh of energy, corresponding to a reduction of about 12,900 (8,000) tons of CO₂ emissions.



Risk management

Höganäs' business is exposed to operational and financial risks. There are a number of strategies and policies to manage these risks and minimise earnings effects and disruptions.

Risks in the Group's operating activities

The production of metal powder is a chain of processes, and accordingly, disruption in various steps can have major consequences. Production disruption due to transport problems or fire, explosions or other types of accident can be costly. To minimise any consequential effects, Höganäs maintains reserve stocks of raw materials and finished products.

Production can also be relocated within the Group to reduce the risks of production downtime.

In 2010, Höganäs initiated a collaboration with its property and consequential loss insurer, FM Global, involving the extensive inspection of all production facilities. This resulted in an action-plan of improvements designed to further reduce the risks of production disruptions.

Insurance risks relate to the expenses Höganäs may incur as a result of inadequate insurance cover. Höganäs endeavours to arrange insurance cover that keeps its risks at an acceptable level. As part of this process, Höganäs conducted valuations of most of its production facilities in the year to ensure that accurate replacement values are reported to its insurer.

Purchasing risks include delivery fulfilment, quality and prices of materials and energy. Höganäs aims to maintain at least two suppliers of selected strategic raw materials. The parent company is responsible for purchasing selected metals and co-ordinates other strategic materials, while other risks are managed locally at production facilities.

Höganäs is exposed to the risk of not receiving payment for deliveries. To some degree, the risk of bad debt is mitigated by the Group's sales being conducted in a

high number of countries to a large customer base, limiting exposure. Höganäs also arranges credit insurance to alleviate the risk of bad debt from US customers and export letters of credit for sales in some Asian markets. Credit checks are always run on new customers before sales. Receivables balances are also monitored continuously.

Höganäs' reputation can be damaged if its safety, environmental accountability and ethics come under question. These risks are managed systematically through approved management systems, and dealt with locally by the Group's functional support. These questions are also highlighted in ongoing work through training and influencing attitudes.

Prospects of attracting and retaining skilled staff are important for Höganäs to be able to operate with good profitability sustainably. Competence and leadership development are conducted through channels including Höganäs Business Academy.

Some of the legal disputes and administrative processes that arise in operations can also be considered as risks. These include matters relating to environmental and health liability and intellectual property, for example, as well as disputes with suppliers, customers and other external parties, which may involve large amounts. Legal disputes are managed by Höganäs' Corporate Legal function in consultation with external services providers.

In a globalised and competitive operation, there is a risk that new products and processes are plagiarised. Intellectual property risks are managed by the Group's R&D unit. Höganäs seeks to secure patent protection on technical innovations and processes developed by the Group, and monitors patent compliance.

Exogenous risks

Höganäs' operations are affected by the global economy, through raw materials prices, supply and the market potential of the Group's products. Risks related to changes in raw material prices are reviewed in the section on financial risks.

Exposure to the automotive industry makes the Group especially sensitive to progress in this sector. Protection against these risks is problematic in the short term. In the longer perspective, Höganäs achieves this by developing products with higher value-added, and by focusing on forward-looking segments. Many of Höganäs' products are exposed to competition, and several major competitors have progressively improved the quality of their products in recent years. The PM industry is also subject to over-capacity. Through its strategy of being the technological, product and commercial leader in metal powder, Höganäs intends to retain and advance its positioning versus competitors.

The Group's financial risks

Höganäs has applied a working method of raw material and currency hedging since 2008, designed to minimise the direct effects of fluctuations in raw material prices and exchange rates on the Group's earnings. This working method means that price and currency risks related to purchasing and sales of metals are hedged more than previously, while currency risks resulting from various currency flows are hedged for a shorter term than before.

The Finance Policy states how the different risks should be managed, and the risk mandates that have been granted. The Finance Policy covers financing, liquidity management, credit risks and

USD Mo
Cu Ni EUR



managing all price risks that can be managed using derivatives, i.e. currencies, interest rates, certain raw materials and energy. The Board has appointed a Finance Committee whose duty is to monitor financing activities. Höganäs' finance unit is responsible for managing the Group's financial risks and operates as an internal treasury. Currency, interest rate, metals and energy derivatives are used pursuant to mandates from the Board of Directors, Finance Committee and Group management.

The Group purchases raw materials as metal and refines them, primarily into metal powder products. Purchase agreements stipulate pricing based on current market pricing with a predetermined time delay. The Group's sales agreements also state that the price of metal powder includes a predetermined share of raw materials, whose pricing is based on current market prices with a predetermined time delay. To gain an accurate view of the Group's raw material and currency risk, operations should be considered in two components. The first is purchases and sales of raw materials as metals, the second the industrial refining process of raw materials into metal powder products.

Price risk arises when purchasing metal raw materials, usually in US dollars (USD) when the price of the purchase is determined. The price risk then exists from the day the price of the metal powder product that the raw material is included in is determined in accordance with the sales agreement. However, currency risk exists until the account receivable is settled.

Raw material and currency risk can be limited by the counter value of the

total exposed values in the Group being bought or sold through forward contracts or other derivative instruments. The intention is to minimise the effect of price and exchange rate fluctuations in trading with raw materials over time, although not necessarily in a single quarter. The possibility of completely eliminating risks is limited by several factors. This would require access to perfect information on future transaction flows. Moreover, not all metals have functional market places, meaning that the cost of achieving effective price hedging on long-term contracts would be unreasonably high. In 2010, metal derivative instruments were only used to hedge nickel, copper and molybdenum prices.

Exposure in the industrial refinement process of raw materials into metal powder consists of the value-added. This value arises in several currencies within the Group, depending on where the product is refined and sold. The scale of the risk is also affected by the time interval when sales prices cannot be adjusted due to changes in value-added. For a limited time, this risk can be minimised by the value of the exposure being bought or sold through forward contracts or other derivative instruments. The forecast accuracy of the Company's transaction flow also limits the possibility of completely eliminating the risks. Using derivative instruments, Höganäs can mitigate the effects of short-term exchange rate fluctuations. In the long term, Höganäs is always exposed to the effect of changed external conditions. Höganäs has selected a hedging strategy where forecast flows are hedged for up to 15 months. For the long term, Höganäs

protects itself against currency risks by adapting operations to changing exogenous conditions.

Readers should also note that a currency risk may be 'direct' or 'indirect'. Direct exposure consists of contracted or forecast cash flow. However, indirect exposure consists of the exposure resulting from contract terms. The metal price surcharge model for customers is an example of this, where exchange rates are translated at a predetermined time before invoicing. Then, the indirect exposure is not immediately visible in the Group's cash flow, but does affect earnings in the same way as if it had been.

Höganäs' reporting currency is the Swedish krona. Because a high share of Höganäs' capital employed is denominated in foreign currencies, financing is arranged directly in these currencies to achieve the effective hedging of capital in convertible currencies.

Finance risk is the risk associated with the Group's financing needs resulting from loan agreements that expire and an increased need for working capital. Current credit facilities, which were MEUR 175 at year-end, were arranged with a syndicate of four banks in 2010 and mature in spring 2013. In 2010, Höganäs also used export funding provider Svensk Exportkredit (SEK) to arrange a short-term facility. The share of this facility drawn down at year-end and remaining volumes for other short-term credits are reported in Note 31. Interest swaps are used to manage interest risk. Höganäs' finance policy stipulates that the basic strategy means that 40% of interest-bearing liabilities should have an interest-fixing period of over one year.

The permitted exemption mandates are stated in the policy, and divergences are reported back on a continuous basis.

Höganäs' hedging strategies in its Finance Policy:

- Price and currency risks resulting from purchases and sales of raw materials are 90% hedged
- Currency risks linked to the refining process are hedged at 90% for a horizon of up to 15 months
- The net of outstanding accounts receivable and accounts payable is 100% hedged
- Energy costs are hedged on an ongoing basis with a horizon of up to 18 months.

Sensitivity analysis, financial risks

An advance analysis stating the effect on Group earnings follows. The sensitivity analysis illustrates the effect of underlying exposure, i.e. the effect excluding hedging instruments. One exception is that interest risk is stated considering existing swaps. The analysis is based on forecast transaction volumes for 2011. Actual outcomes will be affected by the selection of the hedging level within the policy's divergence mandates, the accuracy of forecasts and derivative instrument market conditions.

Currency risks resulting from accounts payable and accounts receivable have not been factored into the sensitivity analysis because they are 100% hedged, and thus do not have any net effect on Höganäs' Income Statement and Balance Sheet in either the short or long term. Investments in foreign subsidiaries have also been

omitted. Currency effects of the revaluation of investments in foreign subsidiaries are offset by the currency effects from loans. Information on accounts receivable and investments in foreign subsidiaries is in Note 31.

The tables below show the effect on the Company's Income Statement that would arise from a given exchange rate or price change excluding hedging instruments. The timing of when the effect becomes visible in the Income Statement depends on Höganäs' accounting principles.

Gains or losses from hedging instruments are recognised first in the hedging provision in equity. They are then recognised at the time the hedge applies. Thus it is not possible to attain comprehensive matching between when effects from underlying exposure and hedging instruments are recognised in income.

Price and currency risks when purchasing and selling metals

Metal	Price and exchange rate fluctuation ¹	Earnings effect of exposure, MSEK ²
Copper	+10%	1
Nickel	+10%	12
Molybdenum	+10%	2
Scrap	+10%	-5

Currency risks in the refinement process

Currency	Exchange rate fluctuation ³	Earnings effect of exposure, MSEK
USD/SEK	+10%	79
EUR/SEK	+10%	96
JPY/SEK	+10%	24
Other	+10%	24
Total		223

Energy prices

Energy type	Price and exchange rate fluctuation ⁴	Earnings effect of exposure, MSEK
Electricity	+10%	-28
Oil/gas	+10%	-14

Interest risk (MSEK)

Loan	Interest rate change ⁵	Earnings effect one-year horizon	Earnings effect two-year horizon	Earnings effect three-year horizon
889	+1%	-3	-7	-8

¹ Price volatility in 2010 was approx. 16% for copper, 31% for nickel and approx. 30% for molybdenum and scrap.

² Only a small share of annual volumes are exposed at any time.

³ Price volatility in 2010 was 4-12%.

⁴ Price volatility in 2010 was approx. 15% for oil/gas and 90% for electricity.

⁵ Interest changes in 2010 were 0.6 percentage points.

The 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 2010 was SEK 263 (164), equivalent to market capitalisation of class B shares of MSEK 8,973 (5,595). The share price rose by 60% in 2010, clearly above the sector index and the stock market overall. The NASDAQ OMX Stockholm rose by 23% and the Mid Cap index by 12%, while the Materials sector index rose by 17% and the Metals & Mining sub-index by 22%. The Höganäs class B share set a high in the year of SEK 272 on 21 and 23 December and a low of SEK 153 on 28 January.

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

With the introduction of the EU MiFiD directive, shares are now traded on marketplaces other than stock exchanges. Such marketplaces include Burgundy, Chi-X and Turquoise. Since introduction of the directive, 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 over 85% of total turnover

of the share in 2010. In 2009, the corresponding figure was 91%. A total of 26.74 (12.67) million shares were traded in 86,793 (26,731) transactions, equivalent to a rate of turnover of 79% (37). The rate of turnover for the NASDAQ OMX Stockholm fell to 95% (119), while the rate of turnover for the Mid Cap list was unchanged at 66% (65).

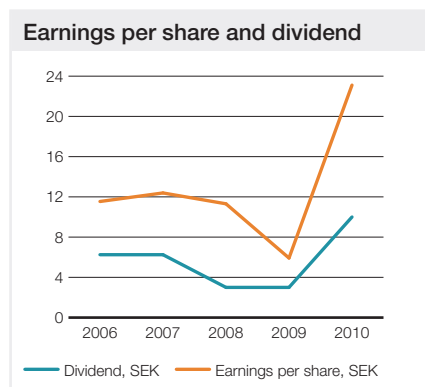
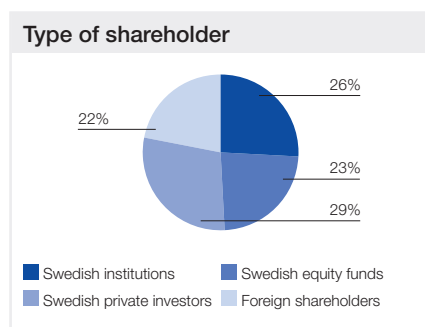
Share buy-backs

The AGM of 26 April 2010 approved a re-purchase mandate of a maximum of 10% of class B shares in the period until the next AGM. Höganäs did not re-purchase any shares in 2010. Höganäs' holdings of treasury shares were unchanged at 293,800 class B shares at year-end 2010, or 0.8% of the total number of class B shares.

Ownership

At year-end 2010, Höganäs had 7,359 (7,469) shareholders. At year-end 2010, 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 53.8% of the votes and 41.7% of the capital.

78.2% (82.4) of Höganäs AB's share capital is held by Swedish investors and 21.8% (17.6) by foreign investors. Of the Swedish investors, it is mainly institutions that reduced their participating interests in the year, while foreign shareholders increased their participating interests. 25.9% (30.4) of Swedish-held Höganäs shares are held by institutions, 23.4% (22.4) by mutual funds and 28.9% (29.6) by private individuals.



Swedish institutions and mutual funds increasing their holdings include DnB/Carlson fonder (8th) and AFA Försäkring (10th), which are new among Höganäs' ten largest shareholders. Of foreign shareholders, Marathon Asset Management and the Norwegian Government increased their holdings. The largest foreign ownership is in the UK and US, holding 6.5% and 4.6% of capital respectively.

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 2010, the Board of Directors is proposing a dividend of SEK 10, or 43% of income after tax, equivalent to a dividend yield of 3.8% per share, calculated on the closing price for the year. Since its initial public offering, Höganäs has had an average annual dividend yield of 2.9%.

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 2010. Höganäs arranges regular conference calls and presentations, as well as conducting investor conferences when publishing its interim and year-end reports.

Largest shareholders

Shareholder	30 Dec. 2010	% of votes *	% of capital
Lindéngruppen AB	7,650,000	37.8	21.8
AB Industrivärden	3,550,000	8.1	10.1
Didner & Gerge Fonder AB	3,448,486	7.9	9.8
Marathon Asset Management	2,250,878	5.1	6.4
Alecta	1,835,500	4.2	5.2
Swedbank Robur fonder	1,069,959	2.5	3.0
Lannebo fonder	1,066,000	2.4	3.0
DnB/Carlson fonder	903,206	2.1	2.6
Norwegian Government	795,802	1.8	2.3
AFA Försäkring	757,690	1.7	2.2
Total, ten largest shareholders	23,327,521	73.7	66.3

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

Key indicators

	2006	2007	2008	2009	2010
Earnings per share, SEK*	11.54	12.39	11.31	5.92	23.11
Cash flow after investments per share, SEK*	12.30	9.00	6.30	18.00	11.80
Equity per share, SEK*	75.40	79.50	69.10	76.20	93.05
Dividend per share, SEK**	6.25	6.25	3.00	3.00	10.00
Year-end share price *	179.50	136.75	70.00	164.00	263.00
Dividend yield, %***	3.5	4.6	4.3	1.8	3.8

* According to definition on page 92

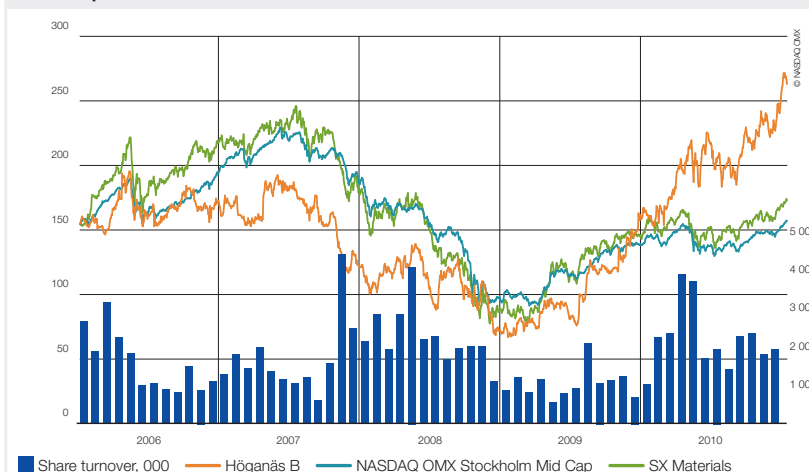
** Board of Directors' proposal for 2010

*** Dividend as a percentage of year-end share price

Financial analysts monitoring the Höganäs share

Company	Analyst
ABG Sundal Collier	Erik Pettersson
Cheuvreux	Björn Gustafsson
Carnegie Investment Bank AB	Andreas Koski
Danske Bank	Carl Holmqvist
Handelsbanken Capital Markets	Hampus Engellau
Nordea	Olof Krook
SEB Enskilda	Anders Trapp
Swedbank	Ola Södermark
Ålandsbanken	Anders Roslund
Öhman Fondkommission	David Jacobsson

Share price and turnover vs. index



Corporate Governance Report 2010

Höganäs applies the Swedish Code of Corporate Governance ("the Code"), and thus, in accordance with the stipulations of the Swedish Annual Accounts Act and the Code, hereby presents the Corporate Governance Report for 2010.

Höganäs' corporate governance bodies

Höganäs is a Swedish public limited company. Höganäs' shareholders ultimately take decisions on the Company's governance by appointing the Group's Board of Directors, the Chairman of the Board and 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.

Shareholders

On 30 December 2010, Höganäs had 7,359 (7,469) shareholders. Lindéngruppen AB has been the Company's main shareholder 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 2010, Swedish private inves-

tors held 28.9% of the capital and 43.2% of the votes, directly or indirectly via companies. Foreign ownership was 21.8% of the capital and 17.4% of the vote at year-end. For more information on the Höganäs share and ownership structure, see pages 22–23.

AGM

Höganäs' AGM 2010 was held on 26 April in Höganäs, Sweden. All Board members attended the Meeting. Of the Company's major shareholders, Lindéngruppen AB, AB Industrivärden, Alecta, Lannebo Fonder, If Skadeförsäkring AB and SEB were represented at the Meeting.

Höganäs conducts its AGM in Swedish. English-language documentation from the Meeting is available on 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 2010 are reviewed below.

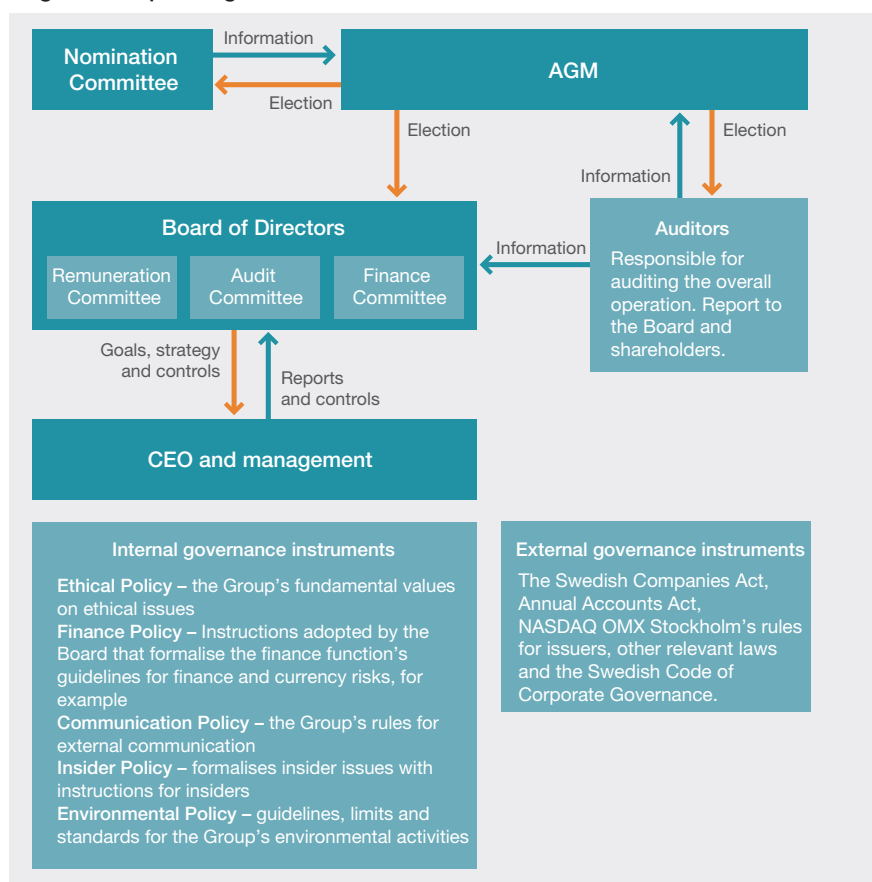
Election of the Board of Directors and Chairman of the Board

All Board members were re-elected, i.e. Anders G Carlberg, Alrik Danielson, Jenny Lindén Urnes, Bernt Magnusson, Bengt Kjell, Peter Gossas, Urban Jansson and Erik Urnes. 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 of unchanged fees totalling SEK 2,100,000 to the Board of Directors, of which SEK 450,000 to the Chairman of the Board, SEK 225,000 to each of the other members that are not employed by the Group and SEK 300,000 for committee work. Remuneration for committee work was

Höganäs' corporate governance bodies



Höganäs is a Swedish public limited company. Höganäs' shareholders ultimately take decisions on the Group's governance by appointing the Group's Board at the AGM, which in turn is the body responsible for ensuring compliance with laws and other external and internal governance instruments on a continuous basis in the year. The model reviews how corporate governance is organised in Höganäs.

divided as SEK 50,000 each to external Board members of the Finance Committee and SEK 100,000 to the Chairman of the Audit Committee and SEK 50,000 each to the two other external Board members on the Audit Committee. No fees would be payable for work on the Remuneration Committee.

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

Remuneration to management

The AGM resolved to adopt the Nomination Committee's proposed guidelines for remunerating management. These guidelines are reproduced in full in the minutes of the meeting at www.hoganas.com.

Dividend

The AGM approved the Board's proposal of an unchanged dividend of SEK 3.00 per share. The dividend reflected continued prudence based on uncertainty on economic progress and Höganäs' continued stable financial position.

Staff stock option plan

The AGM approved the Board of Directors' proposal for a mandate for the Board to decide on the acquisition and transfer

of class B shares with the intention of fulfilling and covering its commitments relating to the staff stock option plans of 2007 and 2009.

Other

The AGM adopted principles of appointing a Nomination Committee ahead of the AGM 2011, which essentially corresponded to the principles applying since the AGM 2005.

Nomination Committee

Pursuant to a resolution at the AGM 2010, Höganäs' Nomination Committee for the AGM 2011 will consist of representatives of the four largest shareholders in terms of the vote on 31 August 2010, and the Chairman of the Board. For information on the composition of the Nomination Committee, see the Meeting documentation at Höganäs' website www.hoganas.com.

Work of the Nomination Committee

Ahead of 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 pursuant to the Code.

The Nomination Committee held three meetings up to and including 31 December 2010. 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

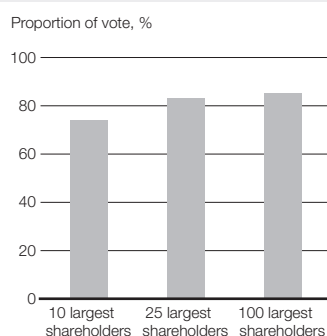
The Chairman of the Board organizes and leads Board work so it is conducted in accordance with the Swedish Companies Act, other laws and ordinances, applicable rules for listed companies (including the Code) and the Board of Directors' internal governance instruments. The Chairman monitors operations in dialogue with the CEO and is

Read more at www.hoganas.com

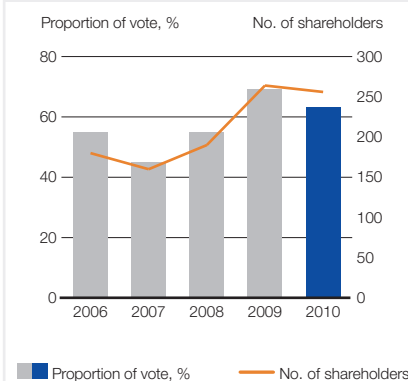
There is more information on corporate governance at Höganäs on the Internet, including

- Corporate Governance Reports from 2005 onwards
- Articles of Association
- Policy documents
- Information on the Nomination Committee
- Information from previous AGMs, from 2004 onwards

Ownership concentration



Attendance at AGMs



Board of Directors



Name	Jenny Lindén Urnes	Alrik Danielson	Bernt Magnusson	Anders G Carlberg	Bengt Kjell	Urban Jansson
Elected in	2004	2005	1994	2009	2006	2007
Position	Board member and member of the Remuneration Committee	CEO and President of Höganäs AB and Chairman of the Finance Committee	Board member and member of the Finance Committee	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 and member of the Finance Committee
Born	1971	1962	1941	1943	1954	1945
Nationality	Swedish	Swedish	Swedish	Swedish	Swedish	Swedish
Educational qualifications	B.A. (Phil.)	B.Sc. (Econ.)	M.Sc. (Pol. Sci.)	B.Sc. (Econ.)	B.Sc. (Econ.)	Certified banking economist
Other assignments	Chairman and President of Lindéngruppen AB Chairman of AB Wilh. Becker and Stiftelsen Färgfabriken. Board member of Moorbrook Textiles Ltd	Board member of the Swedish Steel Producers' Association, EFG European Furniture Group AB and the Chamber of Commerce and Industry of Southern Sweden	Chairman of the Board of Kwintet AB and Pharmadule AB, Board member of Fareoffice AB, Coor Service Management AB, Net Insight AB, Nordia Innovation AB, STC Interfinans and Pricer AB.	Board member of Axel Johnson Inc., Mekonomen AB, Svenskt Stål AB (SSAB), Sapa AB, Säkl AB, Beijer Alma AB and Sweco AB	CEO of AB Handel och Industri, Chairman of Indutrade AB and Hemfosa AB. Board member of Pandox AB and Helsingborgs Dagblad	Chairman of Bergendahls, Rezidor Hotel Group, HMS Networks, Global Health Partner AB, Svedbergs, et al. Board member of AB Wilh. Becker, Clas Ohlson AB, SEB, et al.
Background	CEO and President of AB Wilh. Becker. Directorships in AB Wilh. Becker and subsidiaries	CEO of SKF do Brazil and Vice President of AB SKF's Industrial Division	Chairman of Swedish Match AB, CEO and President of Nordstjärnan AB, Chairman and President of NCC AB, Chairman of Nobel Industrier AB, Assi Domän AB and Skandia AB.	CEO of Axel Johnson Int. AB, Nobel Industries Sweden AB, J S Saba AB, SVP 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	18,500	17,500	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	2/2	-
Attendance at Audit Committee meetings	-	3/3	-	3/3	3/3	-
Attendance at Finance Committee meetings	-	2/2	2/2	-	-	2/2
Affiliation/non-affiliation**	Affiliated to major shareholders	Affiliated to the company and management	Non-affiliated	Non-affiliated	Non-affiliated	Non-affiliated



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	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	CEO of the Sandvik Materials Technology business area, Chairman of the Swedish steel and metals employers' conf., Sandvik Heating Technology AB, Sandvik Process Systems AB, Sandvik Asia Ltd (India) and Sandvik South East Asia Ltd.	CEO of AB Wilh. Becker, Chairman of Becker Industrial Coatings Holding AB, and ColArt International Holdings Ltd. Board member of Lindéngruppen AB and AB Wilh. Becker	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 Akademikerförbundet at Höganäs AB
Background	Various positions with SSAB, Site Manager and various Divisional Manager positions in Avesta Sheffield.	Strategy Consultant, Bain & Company, Investment Manager, Browallia Ltd. and Reuters Greenhouse Fund, CEO of ColArt International Holdings				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	9/9	9/9	9/9	9/9	9/9	9/9
Attendance at Remuneration Committee meetings	-	-	-	-	-	-
Attendance at Audit Committee meetings	-	3/3	1/1	-	-	-
Attendance at Finance Committee meetings	-	-	-	-	-	-
Affiliation/non-affiliation **	Non-affiliated	Affiliated to major shareholder				

* The AGM 2010 resolved on unchanged remuneration to the Board of Directors totalling SEK 2,100,000, with the Chairman of the Board receiving SEK 450,000 and other members elected by the AGM, but not employed by the Group receiving SEK 225,000 each. The remaining SEK 300,000 would be payable as fees for committee work, at SEK 50,000 each to two external members of the Company's Finance 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, while no fees would be payable for work on the Remuneration Committee. More information on remuneration to the Board of Directors in Note 25 on pages 80–81 of the Annual Report.

** The judgment on the Board's affiliation/non-affiliation has been conducted pursuant to the Code's criteria for non-affiliation.

responsible for other Board members gaining the information necessary to perform the Board's duties. The Chairman participates in appraisal and development issues regarding the Group's senior managers. The Chairman represents the Company on ownership issues.

Board of Directors' responsibilities

Each year, the Board adopts written rules of procedure that formalise the Board's activities and its internal division of responsibilities including its Committees, 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 organizational 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 at the AGM.

Work of the Board in 2010

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 Board Secretary Attorney-at-Law Ragnar Lindqvist also attend Board meetings. Other employees of the Company attend Board meetings to report on special issues, or when otherwise 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 2010. Regular business at each meeting includes a review of profit performance, financial position, reports from committees and investment decisions. The agendas of some scheduled meetings also consider the following matters:

- February – Year-end Report, Audit Report, annual financial statement, proposed appropriation of profit, draft Annual Report and Corporate Governance Report, annual statement on the Höganäs Group's PRI pension fund, and matters requiring decisions or approval by the AGM.
 - April – investment update and market.
 - August/September – strategy.
 - November/December – earnings goals for the coming year, Audit Report, capital structure, evaluation of the need for internal audit, appraisal of the Chief Executive Officer's work, appraisal of the Board's work and appraisal of compliance with the Code.
- In 2010, the work of the Board also focused on investments, Asia/China and a number of development projects.

Appraisal of the work of the Board

The Chairman is responsible for the Board continuously deepening its knowledge of the Company, and that Board activities are appraised, and the Nomination Committee receives this appraisal.

The appraisal process is as follows: the Chairman of the Board conducts a questionnaire-based evaluation of the work of the Board among Board members after consulting the Nomination Committee. In addition to this questionnaire, the Chairman also discusses Board activities orally with all Board mem-

Composition of the Nomination Committee

Name	Representing	Position	Participating interest (votes) of Höganäs, % ¹
Jenny Lindén Urnes	Lindéngruppen AB	CEO, Lindéngruppen	37.8
Carl-Olof By	AB Industrivärden	Shareholders' representative	8.1
Henrik Didner	Didner & Gerge Fonder AB	Fund Manager, Chairman of Didner & Gerge Fonder AB	7.7
Ramsay Brufer	Alecta	Shareholders' representative	5.1
Anders G Carlberg	-	Chairman of the Board of Höganäs	0.0
Total			58.7

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 22 October 2010. Jenny Lindén Urnes is Chairman of the Nomination Committee. The Nomination Committee held three meetings after the AGM 2010. There is no remuneration to the members of the Nomination Committee.

bers. The Chairman of the Board then submits the results of the appraisal to the Board and Nomination Committee.

Board Committees

The Board appoints members of Audit, Remuneration and Finance 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 makes a report 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 2010, the Committee consisted of Chairman of the Board Anders G Carlberg, Bengt Kjell, appointed as Chairman of the Committee, and Erik Urnes.

Höganäs' 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 activities are formalised through dedicated instructions adopted by the Board as part of its rules of procedure. The Committee's duties are:

- 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 pursuant to the instructions the Board adopted for Committee work. The Committee met on three occasions in 2010, when all members attended. 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 2010, 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 other representatives of the Corporate Management or other suitable person to attend meetings. However, such individuals do not participate in matters relating to their own remuneration.

No fees were paid for work on the Remuneration Committee.

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 Corporate Management, share-based incentive schemes and general profit-related bonus schemes. The Committee also monitors and evaluates performance-related pay programmes for the Corporate 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 2010, when all members attended. Committee work in the year was conducted in accordance with the instructions the Board adopted for Committee work.

Finance Committee

Composition

Each year, the Board appoints an internal Finance Committee at the Board meeting following election after the AGM. The Board's rules of procedure stipulate that the Committee will consist of three members, and the Company's Chief Executive Officer will be its Chairman. In 2010, the Committee consisted of Alrik Danielson, Chairman, and members Bernt Magnusson and Urban Jansson. Höganäs' Chief Financial Officer, Treasury Manager and an external financial adviser also attend meetings.

SEK 50,000 of fees were paid to each of the two external members of the Committee for 2010.

Duties

The Committee's work is formalised by dedicated instructions adopted by the Board as part of its rules of procedure. The duty of the Finance Committee is to monitor, and within its delegated mandate, to reach decisions on affairs relating to financial risks and transactions, metal hedging and hedging electric power within the auspices of the company's Finance Policy, which formalises management of the Group's currency, metal and electricity exposure.

Authorisation to make decisions

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

Work in the year

The Finance Committee held two meetings in 2010, when all members attended. Linus Ericsson, AGL, has participated in the Committee as an external financial adviser since 2003.

Chief Executive Officer's responsibilities

The Chief Executive Officer leads operations pursuant to the Swedish Companies Act, and within the limits 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 profits 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 corporate management conducts regular operational reviews led by the Chief Executive Officer.

Guidelines for remuneration and other employment terms for Corporate Management

The AGM 2010 approved the Board's proposed guidelines for remuneration and other employment terms for corporate management. The principles were unchanged from those approved by the AGM 2009. The principles 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.

Pursuant to an AGM resolution, the Board of Directors is entitled to diverge from these principles in individual cases in special circumstances. The complete guidelines are included in the AGM documentation on Högånäs' website, www.hoganas.com. Complete information on management remuneration is stated on pages 80–81 of the Annual Report.

Auditors*Elected Auditor*

The AGM 2007 elected KPMG Bohlins AB as Auditor until the AGM 2011. Alf Svensson was registered as Senior Auditor 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 the AGM and make a report, stating an opinion on the audit process. In 2010, the Auditors had consulting assignments relating to Group audit matters and tax advice. The Auditors are elected for the period until the end of the AGM 2011.

Alf Svensson

Senior Auditor

Born: 1949

Högånäs' Auditor since: 2003

Authorised Public Accountant since: 1979

Main employment/assignments: auditing, consulting IFRS, due diligence and prospectuses.

Other public companies: Peab AB, BE Group AB, Nederman AB, Midsona AB and Nolato AB.

Other: Partner of KPMG since 1984. Board member of KPMG AB.

Remuneration to senior managers in 2010 (MSEK)

	Basic salary	Performance-related pay	Other benefits	Pension cost	Share-based payment	Total
CEO	5.3	2.6	0.2	1.8	2.3	12.2
SVP	1.7	0.5	0.1	0.5	0.8	3.6
Other management	17.0	6.1	2.5	3.5	7.1	36.2
Total	24.0	9.2	2.8	5.8	10.2	52.0

Remuneration to Auditors (MSEK)

Year	Auditing	Other	Total
2008	4.2	1.4	5.6
2009	5.5	1.6	7.1
2010	5.2	1.2	6.4

Management



Standing left to right: Per Engdahl, Alrik Danielson, Ulf Holmqvist, Anders Andersson, Claudinei Reche
Sitting left to right: Hans Söderhjelm, Carl Eklund, Sven Lindskog, Avinash Gore, Fredrik Emilson, Srin V Srinivasan

Alrik Danielson

CEO and President

Employed since: 2005

Born: 1962

Educational qualifications: B.Sc. (Econ.)

Previous positions: CEO of SKF do Brazil and Vice President of SKF's Industrial Division

Board member: the Swedish Steel Producers' Association, EFG European Furniture Group AB and the Chamber of Commerce and Industry of Southern Sweden.

Höganas shareholdings: 18,500

Option holdings: 36,720

Ulf Holmqvist

Senior Vice President

Employed since: 1988

Born: 1954

Educational qualifications: B.Sc. (Eng.)

Previous positions: positions in ABB Robotics

Höganas shareholdings: 7,500

Option holdings: 13,219

Anders Andersson

Vice President, HR

Employed since: 1977

Born: 1951

Educational qualifications: B. Sc.

Previous positions: public sector

Höganas shareholdings: 0

Option holdings: 13,219

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.

Höganas shareholdings: 1,000

Option holdings: 13,219

Hans Söderhjelm

Vice President, Marketing & Product Development

Employed since: 1984

Born: 1955

Educational qualifications: M.Sc. (Met.)

Previous positions: Research Assistant, RIT

Höganas shareholdings: 11,100

Option holdings: 13,219

Carl Eklund

President, Höganas Japan KK

Employed since: 2004

Born: 1953

Educational qualifications: B.Sc. (Eng.)

Previous positions: CEO of Volvo Nippon KK

Höganas shareholdings: 10,000

Option holdings: 13,219

Fredrik Emilson

Vice President, Europe region

Employed since: 2010

Born: 1969

Educational qualifications: B.Sc. (Econ.)

Previous positions: CEO of Pergo Europe,

CEO of Trelleborg Waterproofing

Höganas shareholdings: 0

Option holdings: 9,000

Per Engdahl

Vice President, Asia region

CEO of Höganas (China) Co. Ltd.

CEO of Höganas Taiwan Ltd.

CEO of Höganas Korea Ltd.

Employed since: 1985

Born: 1958

Educational qualifications: M.Sc. (Met.)

Previous positions: Director of Sales and Business Development of Höganas AB, SSAB

Höganas shareholdings: 3,000

Option holdings: 13,219

Avinash Gore

Vice President, North America region

President, North American Höganas, 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

Höganas shareholdings: 0

Option holdings: 13,219

Claudinei Reche

Vice President, South America region

President of Höganas Brasil Ltda

Employed since: 2005

Born: 1967

Educational qualifications: B.Sc. (Econ)

Previous positions: Sales Manager DaimlerChrysler

and Sales Director at SKF

Höganas shareholdings: 0

Option holdings: 13 219

Srin V Srinivasan

Vice President, India region

CEO of Höganas 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

Höganas shareholdings: 0

Option holdings: 13,219

Systems for internal control and risk management

Pursuant to the Swedish Companies Act and the Code, the Board is responsible for internal control over financial reporting. This review has been prepared pursuant to the Swedish Annual Accounts Act and the Code, and is thus confined to internal control and risk management relating to financial reporting.

In 2005, Höganäs decided to introduce the COSO framework for internal controls over financial reporting. The framework was launched in 1992 by the Committee of Sponsoring Organizations 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. The Company's 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 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 Assessment

The Board of Directors has decided that the Company will conduct a risk analysis of financial reporting on a yearly basis. Income Statement and Balance Sheet items subject to an increased risk of significant misstatement are identified in the 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, the outcome of the Income Statement, 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. Pursuant to 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 control over financial reporting. The control structure mainly consists of organizational 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 not established a dedicated internal audit function. The opinion of the Board, which considers the need for

this 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.

Compliance with the Code

The Company complies with all the rules of the Code apart from Board member

Jenny Lindén Urnes being appointed as Chairman of the Company's Nomination Committee. The reason for this is that it is considered most expedient for the work of the Nomination Committee that the main representative of the Company's main shareholder has this assignment.

Höganäs, Sweden, 7 February 2011



Anders G Carlberg
Chairman



Peter Gossas



Jenny Lindén Urnes



Karl-Henry Boo
Union Representative



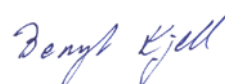
Urban Jansson



Bernt Magnusson



Alrik Danielson
Chief Executive Officer



Bengt Kjell



Erik Urnes



Tony Petersson
Union Representative

Auditor's Statement on Corporate Governance Report

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

The Board of Directors and Chief Executive Officer are responsible for the Corporate Governance Report for 2010 on pages 24-33 and the Report being prepared in accordance with the Swedish Annual Accounts Act. As the basis for our statement that the Corporate Go-

vernance Report has been prepared, and is consistent with, the Annual Accounts and Consolidated Accounts, we have read the Corporate Governance Report and judged its statutory content based on our knowledge of the company.

We consider that a Corporate Governance Report has been prepared and that its statutory information is consistent with the Annual Accounts and Consolidated Accounts.

Höganäs, Sweden, 16 March 2011.

KPMG AB



Alf Svensson
Authorised Public Accountant

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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 2010.

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. 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 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 comprises all powder that is refined into components. Consumables comprises powders that are used in processes, for example, to produce metals, as an additive in chemical processes, surface coating or food supplements. Components represents some three-quarters of Group sales and Consumables the remainder.

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

Consolidated net sales in the year were MSEK 6,671 (4,571), up 46% on the previous year. Sales volumes increased by 40% while the appreciation of the Swedish krona had a negative currency effect of 5%. Rising metal prices meant that metal price surcharges were noticeably higher in 2010 than in the previous year. The price increases over and above metal price surcharges that occurred in the year were mainly on iron ore-based products.

Market conditions were relatively stable and activity levels were high right through the value chain in the year. In Asia, stimulus packages to promote domestic demand gradually tapered off, which progressively affected the progress of volumes. However, in China and India, the second half-year was stronger than the first half-year. In Europe, the effect of discontinued cars scrapping premiums was offset by increased demand from major export markets. European car production gradually levelled off in the year, while component producers and other subcontractors enjoyed continued positive export volumes. In North America, activity levels increased gradually,

albeit slowly, in the year. Höganäs regards the volume reduction in the second half-year as seasonal. In South America, demand conditions were consistently very positive due to economic growth and a strong business cycle.

Gross income was MSEK 1,841 (960). The additional contribution from higher sales volumes was some MSEK 850. Because continued sales gains were achievable without significant new investments, cost absorption was very positive.

Rising metal prices resulted in a loss from metal hedging of MSEK -16 (-37), although this was compensated by inventory gains. In 2009, metal prices rose sharply during the summer half-year, and the loss from metal hedges was MSEK -37 for the full year 2009.

The income comparison with 2009 was also affected by a good rate of inventory turnover, especially in the first half-year 2010, while it was much lower than normal in the first quarter of 2009, which was then charged with relatively high metal costs.

The Swedish krona appreciated significantly in 2009, from a very weak level at the beginning of the year, and this appreciation continued in 2010. Accordingly, exchange rates were less favourable in 2010 than the previous year.

The krona appreciation implied that the income effect from forward contracts on currencies intended to hedge balance sheet positions in foreign currencies was positive at MSEK 25. However, this was offset by negative revaluation differences.

Forward contracts intended to hedge payment flows also produced positive earnings of MSEK 74, thanks to appreciation of the Swedish krona. The currency effect on ongoing payment flows was negative. Höganäs estimates that the total currency effect, i.e. on gross income and other operating items, improved income by some MSEK 50 year on year.

Other operating income and operating costs were MSEK -11 (-61). The figure for 2009 includes MSEK 40 from sales of CO₂ emission rights, and significant losses on long euro contracts (from 2005).

Operating income was MSEK 1,114 (298). The operating margin was 16.7% (6.5) for the year. Income before tax was MSEK 1,084 (271). Income after tax was MSEK 804 (206).

Return on capital employed for the past 12 months was 27.6% (7.2). Returns improved despite capital tied-up increasing as a result of higher metal prices. The income improvement had a sharp positive impact on returns.

The equity/assets ratio at year-end was 57.2%, against 51.8% at year-end 2009. Equity per share was SEK 93.05 against SEK 76.20 at the beginning of the financial year.

Consolidated net indebtedness was MSEK 792 at year-end, down by MSEK 357 since the previous year-end. The debt/equity ratio at year-end was a multiple of 0.24, compared to 0.43 at the beginning of the financial year.

Net financial income/expenses were MSEK -30 (-27). Höganäs' interest expenses increased from June 2010 onwards due to the expiry of a five-year credit facility, and the arrangement of a new three-year facility at a higher cost.

Cash and cash equivalents were MSEK 106, against MSEK 130 at the beginning of the financial year. Unutilised credit facilities of MSEK 2,051 (excluding overdraft facilities) were additional, of which MSEK 1,290 consists of a three-year credit facility applying from June 2010 onwards.

Cash flow from operating activities was MSEK 698 (855). The change in working capital had a negative effect of MSEK 474 on cash flow in the year as a result of higher sales volumes and rising metal prices.

Financing activities had a MSEK -429 (-712) effect on cash flow. Utilisation of confirmed credit facilities reduced by MSEK 238 in the year. A cash dividend of MSEK 104 was implemented.

Consolidated net investments in fixed assets were MSEK 288 (229). Depreciation and amortisation of fixed assets was MSEK 293 (290).

Ownership structure

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

The Höganäs share

The Höganäs share is quoted on the NASDAQ OMX Stockholm on the list of Mid Cap companies. The share is a constituent of the Metals & Mining sub-sector 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 AB with 21.8% of the share capital and 37.8% of the votes and AB Industrivärden with 10.1% of the share capital and 8.1% 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 2010 resolved to authorise the Board to decide on acquisitions of treasury shares in the period until the next AGM, subject to a maximum of class B shares of the Company so that after each acquisition the Company holds a maximum of 10% of the total number of shares of the Company. The purpose of this authorisation to decide on the acquisition of treasury shares is to give the Board the possibility to cover the Company's commitments pursuant to the terms of the Company's performance-related staff stock option plans. Höganäs did not re-purchase any shares in 2010.

There are no agreements between the Company and Board members or employees stipulating remuneration if their employment ceases as a result of a public offering to acquire shares in the Company. Coincident with termination initiated by the Company, the Chief Executive Officer is entitled to severance pay of two years' salary including pension benefits.

Coincident with termination initiated by the Company, another 19 managers are entitled to severance pay of up to 12 months' salary and severance pay of up to one year's salary, including pension benefits. No severance pay is due coincident with termination initiated by the employees.

Significant events in the financial year or subsequent events

Renewed credit facilities

In January 2010, Höganäs AB arranged four new loan agreements of a total of MEUR 175 with four different lenders. These agreements have a three-year term, starting from June 2010, and are subject to covenants. The loans may become due in advance if these covenants are not satisfied, as stated in Note 31.

New applications for Höganäs' surface coating powder

In the year, Höganäs delivered stainless metal powder for laser coating to Roussakis SA, which completed the successful renovation of an 11 m long, 26 ton propeller axle with the powder in 2010. The joint laser surface coating project demonstrates the strength of this new technology, and thus paves the way for new applications segments for Höganäs' surface coating powders, for propeller axles, crankshafts and other segments.

Launch of a unique electric motor for bicycles

In early-May 2010, Höganäs launched a new generation of electric motors specially developed for electric cycles and light vehicles. Thanks to these motors being produced from metal powder, they have a unique combination of reduced weight, more compact design and high performance. The launch was at the World Expo in Shanghai, because the market for electric cycles is growing fastest in China and other Asian countries.

The electric bicycle motor is a highly efficient and compact motor for direct transmission without a gearbox. By combining high power and low weight with a modular design, the motor is suitable for a wide array of applications apart from electric cycles, such as mopeds, scooters, other light vehicles, pumps, fans and generators.

New member of group management and Vice President of Europe Region

On 15 May 2010, Fredrik Emilson became Vice President of Höganäs' European operation, and will thus be a member of Höganäs' group management.

Breakthrough in Asia for Höganäs' chrome material in connecting rods

The production of powder-forged connecting rods started in South Korea in the fourth quarter 2010 based on a unique chrome-alloy Astaloy® material from Höganäs. These connecting rods are produced by Sinteron, which is the second-largest producer of powder-based components in South Korea. Production mainly addresses the car industry, with Hyundai as a key customer.

For a number of years, powder-forged connecting rods have been produced by several component manufacturers, primarily in the US, Japan and South Korea. What is new is that in close partnership with Höganäs and end-user Hyundai Motors, Sinteron has developed a connecting rod that uses the new generation of chrome-alloy material for the first time. These connecting rods will be used in Hyundai's new high-performance engine. Compared to other metals, chrome is a cost-efficient alloy element gaining more widespread usage in the powder metallurgical industry and Höganäs has developed several materials based on a unique production process. By using Höganäs' chrome alloy material in connecting rods, powder forging becomes more competitive than comparable technologies. The estimated volume of the market for connecting rods is over 150,000 tons annually, of which at present, a quarter is produced by powder forging.

Division of Parent Company operations

As of 1 January 2010, the operating activities of the Parent Company were transferred to Höganäs Sweden AB. The operations of the Parent Company then consists of delivery of group-wide services such as IT, research and development, marketing and similar central staff functions.

Research and development

Höganäs conducts proprietary and sector-wide research in powder metallurgy to continue developing technology and potential applications that utilise the qualities of metal powder. Consequently, Höganäs has identified six specially attractive segments where it sees high potential to create cost, efficiency and environmental benefits with the aid of powder technology:

- Powder metallurgy
- Surface coating
- Brazing
- Electromagnetic applications
- Filters
- Injection moulded components

A significant part of research in these segments is in collaboration with subcontractors, customers, end-users, universities and research institutions. By creating a Power of Powder Centre (PoP Centre), Höganäs has become a driving force in the development of new powder applications, and to further enhance the existing ones. Including customer service and tech support, as well as Höganäs' internal process re-engineering, the Group's total R&D amounts to just over 2% of turnover, or 3% of total operating expenses. Höganäs already operates Tech Centres in Sweden, the US and China.

Financial instruments and risk management

The Group's and Parent Company's significant risk and uncertainty factors include business risks in the form of high exposure to the automotive industry. Financial risks, primarily currency and metal price risks, are additional. 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, see Note 31.

Environmental information

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. For more information, see page 18.

Höganäs applied to the regulatory authority for a further extension to continue a technical survey to produce supporting data for remedial measures for the airborne environment. An in-depth survey of the incidence of land contamination is continuing at the Swedish facilities, and Höganäs has expanded its inspection program. The first stage of the process to apply for a new environmental permit for the plants at Höganäs began in the year, and is scheduled for filing with the authorities in 2012.

Human resources

In 2010, Högånäs continued its work on strengthening its organization. Internal corporate communication, training projects and collective routines contribute to creating increased stakeholding and the prospects for employees to progress. Högånäs has introduced a profit share system for all staff of the group, a total of 1,647 (1,456) employees in 15 countries at year-end 2010. This program runs for the period 2010-2012. Entitlement to profit sharing starts when the group's income after tax exceeds MSEK 344, and the full allocation is when income exceeds MSEK 482. The maximum allocation in the group for the profit share program 2010 is MSEK 24.1. Full provisioning has been made for the financial year 2010.

Acquisitions, transfers and holdings of treasury shares

At the beginning of 2010, Högånäs had 293,800 treasury shares, or 0.8% of the total number of shares. Högånäs did not re-purchase or transfer any shares in 2010. The quotient value per share is SEK 5.00.

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

The Board's activities are reviewed in the Corporate Governance Report on page 24–33. More information on how long each Board member has been on Högånäs' Board of Directors, other assignments and main employment are stated on the Board's presentation on page 26–27 and 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 goals set by the Board of Directors. The term of the staff stock options is a minimum of two and a maximum of four years from the grant date.

A total of 111,580 options were granted to participants in the 2007 plan, which after re-statement 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 granted in the 2007 plan is SEK 221.50 per share. No granting was made to participants in the 2008 plan. In 2010, a total of 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 the 2009 plan is SEK 114.20 per share.

To be able to implement the staff stock option plan, the

Board of Directors has been authorised to decide on the acquisition and transfer of class B treasury shares.

Expectations of future progress

Demand conditions were strong in South America and Asia, apart from Japan. Högånäs' view is that demand will continue to improve gradually in North America, but the rate of the recovery remains uncertain. Högånäs' judgement is that underlying European market conditions are still weak, and will remain so as long as consumption levels in heavily indebted countries remain low. Metal prices and exchange rates are expected to stay volatile, which will affect earnings performance.

Parent Company's results of operations and financial position

As of 1 January 2010, the operating activities of the Parent Company were transferred to Högånäs Sweden AB. This intra-group transfer was conducted at taxable values and involved operating receivable/liabilities and fixed assets. An intragroup capital loss of MSEK 562 arose. Subsequently, the Parent Company's operations primarily consist of the supply of group-wide services such as IT, research and development, marketing and similar central functions. Invoicing of group-wide services for the year was MSEK 138. Dividends received from subsidiaries were MSEK 44.

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, etc. Other senior managers means the ten people that comprised the Group management in 2010 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. The maximum performance-related pay is 50% of basic salary. Performance-related pay is based on outcomes in relation to individual targets.

Pension benefits and benefits in the form of financial instruments etc., 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 staff stock option plans. This entitlement shall relate to the Company's progress, with granting determined by balancing predetermined target figures for volume and earnings growth, and return on capital employed, as determined by the Board of Directors.

The Board of Directors' proposed remuneration guidelines for senior managers for 2011 are unchanged.

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 1,407,193,175 are appropriated as follows:

Dividends, 34,805,132 * SEK 10.00	348,051,320
Carried forward	1,059,141,855
Total	1,407,193,175

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 39%. The Board of Directors judges that liquidity of the Group will be maintainable at a satisfactory level.

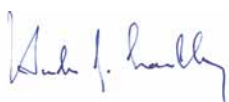
The Board of Directors and Chief Executive Officer certify that the consolidated accounts have been prepared in accordance with IFRS (International Financial Reporting Stand-

ards) 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 7 February 2011. 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 2 May 2011.

Höganäs, Sweden, 7 February 2011



Anders G Carlberg
Chairman




Peter Gössas



Urban Jansson



Bengt Kjell



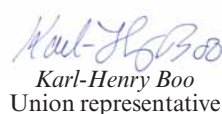
Jenny Lindén Urnes



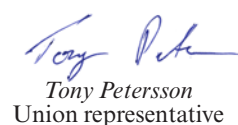
Bernt Magnusson



Erik Urnes



Karl-Henry Boo
Union representative



Tony Petersson
Union representative



Alrik Danielson
Chief Executive Officer

Consolidated Income Statement

1 January – 31 December

MSEK	Note	2010	2009
Net sales	2	6,671	4,571
Cost of goods sold		-4,830	-3,611
Gross profit		1,841	960
Selling expenses		-248	-225
Administrative expenses		-323	-277
Research and development costs		-145	-99
Other operating income	3	79	69
Other operating expenses	4	-90	-130
Operating income	2, 5, 6, 7, 13, 25	1,114	298
Financial income		11	5
Financial expenses		-41	-32
Net financial income/expense	8	-30	-27
Income before tax		1,084	271
Tax	9	-280	-65
Net income		804	206
Net income attributable to:			
Parent Company shareholders		804	206
Non-controlling interests		-	-
Net income		804	206
Earnings per share:			
Before dilution (SEK)	21	23.11	5.92
After dilution (SEK)		23.11	5.92

Consolidated Statement of Comprehensive Income

1 January – 31 December

MSEK	Note	2010	2009
Net income	21	804	206
Other comprehensive income			
Translation differences for the year		-209	-164
Hedging of currency risk in foreign operations		156	225
Cash flow hedges		85	196
Tax attributable to other comprehensive income		-146	-110
Other comprehensive income for the year		-114	147
Comprehensive income for the year		690	353
Comprehensive income for the year attributable to:			
Parent Company shareholders		690	353
Non-controlling interests		-	-
Comprehensive income for the year		690	353

Consolidated Statement of Financial Position

As of 31 December

MSEK	Note	2010	2009
ASSETS			
Intangible assets	11	297	291
Property, plant and equipment	12	2,374	2,458
Long-term receivables	16	104	92
Deferred tax assets	9	50	89
Total fixed assets		2,825	2,930
Inventories	17	1,581	1,152
Tax assets		14	23
Accounts receivable—trade	18	889	707
Prepaid expenses and accrued income	19	41	56
Other receivables		211	120
Cash and cash equivalents	20	106	130
Total current assets		2,842	2,188
TOTAL ASSETS		5,667	5,118
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholders' equity	21		
Share capital		175	175
Provisions		-59	55
Profit brought forward including net income		3,123	2,423
Shareholders' equity attributable to Parent Company shareholders		3,239	2,653
Non-controlling interests		-	-
Total shareholders' equity		3,239	2,653
Liabilities			
Long-term interest-bearing liabilities	23, 31	814	1,130
Other long-term liabilities	24	52	56
Provisions for pensions	25	9	12
Other provisions	26	20	25
Deferred tax liabilities	9	380	297
Total long-term liabilities		1,275	1,520
Current interest-bearing liabilities	23	75	137
Advances from customers		4	2
Accounts payable		553	441
Tax liabilities		119	53
Other liabilities		50	59
Accrued expenses and deferred income	28	322	219
Other provisions	26	30	34
Total current liabilities		1,153	945
Total liabilities		2,428	2,465
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,667	5,118

Pledged assets and contingent liabilities for the Group

MSEK	Note	2010	2009
Pledged assets	29	42	47
Contingent liabilities	29	84	81

Consolidated Statement of Changes in Shareholders' Equity

MSEK	Note 21	Shareholders' equity attributable to Parent Company's shareholders				Total	Non- controlling interests	Total share- holders' equity
		Share capital	Translation provision	Hedging provision	Profit brought forward incl. net income			
Opening shareholders' equity, 1 Jan. 2009		175	51	-143	2,321	2,404	2	2,406
Comprehensive income for the year								
Net income		-	-	-	206	206	-	206
Other comprehensive income for the year		-	2	145	-	147	-	147
Comprehensive income for the year		-	2	145	206	353	-	353
Transactions with the Group's owners								
Dividends paid		-	-	-	-104	-104	-	-104
Acquisitions of non-controlling interests, already controlling interests		-	-	-	-	-	-2	-2
Closing shareholders' equity, 31 Dec. 2009		175	53	2	2,423	2,653	-	2,653
Opening shareholders' equity, 1 Jan. 2010		175	53	2	2,423	2,653	-	2,653
Comprehensive income for the year								
Net income		-	-	-	804	804	-	804
Other comprehensive income for the year		-	-177	63	-	-114	-	-114
Comprehensive income for the year		-	-177	63	804	690	-	690
Transactions with the Group's owners								
Dividends paid		-	-	-	-104	-104	-	-104
Closing shareholders' equity, 31 Dec. 2010		175	-124	65	3,123	3,239	-	3,239

Consolidated Statement of Cash Flows

1 January - 31 December

MSEK	Note	2010	2009
Operating activities			
Operating income		1,114	298
<i>Adjustments for non-cash items</i>			
Depreciation and amortisation	11,12	293	290
Impairment losses		-	29
Unrealised exchange rate differences		-13	-63
Capital gain on divestment		10	-39
Other items		-9	-51
Interest received		3	5
Interest paid		-32	-33
Realised exchange rate differences		32	100
Other financial costs		-1	-1
Income tax paid		-225	-65
Cash flow from operating activities before changes in working capital		1,172	470
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-480	297
Increase (-)/decrease (+) in operating receivables		-217	22
Increase (+)/decrease (-) in operating liabilities		223	66
Cash flow from operating activities		698	855
Investing activities			
Acquisitions of business operations		-	-3
Acquisition of intangible assets	11	-42	-42
Divestment of intangible assets		17	26
Acquisition of property, plant and equipment	12	-260	-223
Divestment of property, plant and equipment		6	5
Acquisitions of financial fixed assets		-9	-
Divestment of financial fixed assets		-	8
Cash flow from investing activities		-288	-229
Financing activities			
Borrowings		36	79
Amortisation of loans		-361	-687
Dividend paid		-104	-104
Cash flow from financing activities		-429	-712
Cash flow for the year		-19	-86
Cash and cash equivalents at beginning of year		130	220
Exchange rate differences in cash and cash equivalents		-5	-4
Cash and cash equivalents at end of year	20	106	130

Parent Company Income Statement

1 January – 31 December

MSEK	Note	2010	2009
Net sales	2	146	2,411
Cost of goods sold		-	-1,899
Gross profit		146	512
Selling expenses		-75	-104
Administration expenses		-158	-132
Research and development costs		-137	-91
Other operating income	3	8	53
Other operating expenses	4	-566	-86
Operating income	5, 6, 13	-782	152
<i>Profit from financial items:</i>			
Earnings on participations in Group companies	8	44	20
Interest income and similar items	8	225	71
Interest expenses and similar items	8	-41	-43
Profit after financial items		-554	200
Appropriations	10	637	215
Income before tax		83	415
Tax	9	-21	-105
Net income		62	310

Parent Company Statement of Comprehensive Income

1 January – 31 December

MSEK	2010	2009
Net income	62	310
Other comprehensive income		
Cash flow hedges	-14	191
Tax attributable to other comprehensive income	4	-50
Other comprehensive income for the year	-10	141
Comprehensive income for the year	52	451

Parent Company Balance Sheet

As of 31 December

MSEK	Note	2010	2009
ASSETS			
Fixed assets			
Intangible assets	11	77	120
Property, plant and equipment	12	84	1,164
Financial fixed assets			
Shares in Group companies	14	3,412	1,229
Receivables from Group companies	15	235	1,039
Other long-term receivables	16	7	2
Deferred tax assets	9	-	6
Total financial fixed assets		3,654	2,276
Total fixed assets		3,815	3,560
Current assets			
Inventories, etc.	17	-	495
Current receivables			
Accounts receivable—trade	18	-	279
Receivables from Group companies		88	98
Tax assets		-	-
Other receivables		80	105
Prepaid expenses and accrued income	19	17	46
Total current receivables		185	528
Cash and bank balances	20	3	19
Total current assets		188	1,042
TOTAL ASSETS		4,003	4,602

Parent Company Balance Sheet, cont.

As of 31 December

MSEK	Note	2010	2009
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	21		
<i>Restricted equity</i>			
Share capital (981,000 class A shares and 34,117,932 class B shares)		175	175
Statutory reserve		39	39
<i>Non-restricted equity</i>			
Fair value reserve		-51	-41
Profit brought forward		1,396	698
Net income		62	310
Total shareholders' equity		1,621	1,181
Untaxed reserves	22	58	695
Provisions			
Provisions for pensions		3	5
Provisions for tax	9	8	-
Other provisions	26	-	16
Total provisions		11	21
Long-term liabilities			
Liabilities to credit institutions	27	800	1,100
Liabilities to Group companies		959	844
Other long-term liabilities	24	15	44
Total long-term liabilities		1,774	1,988
Current liabilities			
Liabilities to credit institutions	27	8	79
Advance payments from customers		-	1
Accounts payable—trade		20	318
Liabilities to Group companies		330	70
Current tax liabilities		90	30
Other liabilities		18	35
Accrued expenses and deferred income	28	73	150
Other provisions	26	-	34
Total current liabilities		539	717
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,003	4,602
Parent Company pledged assets and contingent liabilities			
MSEK	Note	2010	2009
Pledged assets	29	10	10
Contingent liabilities	29	281	337

Parent Company Statement of Changes in Shareholders' Equity

	Note 21	RESTRICTED EQUITY		NON-RESTRICTED EQUITY		Total share- holders' equity
		Share capital	Statutory reserve	Fair value reserve	Profit brought forward	
MSEK						
Opening shareholders' equity, 1 Jan. 2009		175	39	-182	857	889
Comprehensive income for the year						
Net income		-	-	-	310	310
Other comprehensive income for the year		-	-	141	-	141
Comprehensive income for the year		-	-	141	310	451
Group contribution paid		-	-	-	-75	-75
Group contribution received		-	-	-	2	2
Tax attributable to items reported directly to shareholders' equity		-	-	-	18	18
Total changes in net worth reported directly to shareholders' equity, excl. transactions with the company's shareholders		-	-	141	255	396
Dividends		-	-	-	-104	-104
Closing shareholders' equity, 31 Dec. 2009		175	39	-41	1,008	1,181
Opening shareholders' equity, 1 Jan. 2010		175	39	-41	1,008	1,181
Comprehensive income for the year						
Net income		-	-	-	62	62
Other comprehensive income for the year		-	-	-10	-	-10
Comprehensive income for the year		-	-	-10	62	52
Group contribution paid		-	-	-	-73	-73
Group contribution received		-	-	-	741	741
Tax attributable to items reported directly to shareholders' equity		-	-	-	-176	-176
Total changes in net worth reported directly to shareholders' equity, excl. transactions with the company's shareholders		-	-	-10	554	544
Dividends		-	-	-	-104	-104
Closing shareholders' equity, 31 Dec. 2010		175	39	-51	1,458	1,621

Parent Company Cash Flow Statement

1 January – 31 December

MSEK	Note	2010	2009
Operating activities			
Operating income		-782	152
<i>Adjustments for non-cash items</i>			
Depreciation and amortisation	11, 12	26	147
Impairment losses		-	29
Unrealised exchange rate differences		-56	-2
Capital gain, intragroup transfer		562	-
Other items		-8	-82
Dividends received		44	20
Interest received		4	24
Interest paid		-32	-29
Realised exchange rate differences		158	24
Income tax paid		-119	-6
Cash flow from operating activities before changes in working capital		-203	277
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-	55
Increase (-)/decrease (+) in operating receivables		48	-37
Increase (+)/decrease (-) in operating liabilities		85	100
Cash flow from operating activities		-70	395
Investing activities			
Acquisition of subsidiary, net liquidity effect	14	-	-4
Disposal of assets and liabilities, net intragroup liquidity effect		-12	-
Amortisation from/lending to subsidiaries		532	302
Acquisition of intangible assets	11	-24	-28
Divestment of intangible assets		-	26
Acquisition of property, plant and equipment	12	-16	-127
Divestment of property, plant and equipment		1	1
Divestment of financial fixed assets		-	1
Cash flow from investing activities		481	171
Financing activities			
Borrowing		-	79
Amortisation of loans		-323	-610
Dividend paid		-104	-104
Cash flow from financing activities		-427	-635
Cash flow for the year		-16	-69
Cash and cash equivalents at beginning of year		19	88
Cash and cash equivalents at end of year	20	3	19

Notes on the financial statements

NOTE 1 SIGNIFICANT ACCOUNTING PRINCIPLES

(a) Consistency with standards and laws

The consolidated accounts have been prepared pursuant to 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 7 February 2011. The Consolidated Income Statement, Comprehensive Income and Statement of Financial Position and the Parent Company Income Statement, Comprehensive Income and Balance Sheet will be subject to adoption by the Annual General Meeting on 2 May 2011.

(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, financial assets classified as financial assets measured at fair value via income, or as saleable financial assets.

(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 pursuant to 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

(i) Amended accounting principles caused by new or revised IFRS

The following reviews those amended accounting principles the Group is applying from 1 January 2010 onwards. Other amendments of IFRS with application from 2010 onwards did not have any material effect on the Group's accounting.

Business combinations and consolidated accounts

From 1 January 2010 onwards, the Group applies the revised IFRS 3 *Business Combinations* and Amended IAS 27 *Consolidated and Separate Financial Statements*. These revised accounting principles have implications including: the definition of an operation changes, transaction expenditure in business combinations is expensed, conditional purchase prices are measured at the value on the acquisition date and the effects of restating liabilities related to conditional purchase prices are recognised as a revenue or expense in net income. Other new developments include there being two alternative ways to report non-controlling interests and goodwill, either at fair value, i.e. goodwill is included in the non-controlling

interest, or alternatively, that the non-controlling interest becomes a part of net assets. The choice between these two methods is made individually for each business combination. Moreover, additional acquisitions that occur after controlling influence is obtained will be considered as transactions with owners and recognised directly in equity, which is a change to the Group's previous principle, which was to report excess amounts as goodwill.

The changed accounting principles did not have any retroactive effect on Höganäs' financial statements. Amendments of standards did imply some changes to the disclosure requirements relating to business combinations. Höganäs did not conduct any business combinations in 2010.

Hedges of a Net Investment in a Foreign Operation

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* states items including how only the risk in the functional currencies of the Parent Company and each foreign operation should be hedged. According to this interpretation statement, some of the hedging relations that Höganäs previously classified as hedges of net investment cannot constitute hedges. Hedge accounting for these hedges was discontinued from 1 January 2010, without any material effect on the consolidated accounts.

(g) New IFRS and interpretations 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.

IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement from 2013 onwards at the latest. IASB has published the first of at least three parts, which together, will comprise IFRS 9. This 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 contracted 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 pursuant to IAS 39. IFRS 9 has not yet been endorsed by the EU. When this occurs, Höganäs will decide whether to apply the new principles prospectively or from 2013 onwards.

Höganäs judges that none of the above changes to standards or new interpretation statements adopted from the financial year 2011 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 earnings of the 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 strategy 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 on 1 January 2010 or later

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 or previous business relations. This type of settlement is recognized 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 conducted between 1 January 2004 and 31 December 2009

Acquisitions conducted between 1 January 2004 and 31 December 2009 where the cost exceeds the fair value of acquired assets and liabilities taken over and contingent liabilities taken over that are reported separately, the difference is reported as goodwill. When the difference is negative, this is recognised directly in net income.

Transaction expenses, apart from transaction expenses attributable to the issue of equity instruments or debt instruments that arise, have been included in cost.

Acquisitions conducted before 1 January 2004 (adoption date of IFRS)

For acquisitions that occurred before 1 January 2004, goodwill, after impairment testing, is reported at cost corresponding to the carrying amount according to previous accounting principles.

The classification and accounting treatment of business combinations that occurred before 1 January 2004 have not been reconsidered according to IFRS3 when preparing the Consolidated opening balance according to IFRS as of 1 January 2004.

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 at 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 coincident with 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 arise for 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 accrued income 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 reported in the Statement of Financial Position as deferred income 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 coincident with 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 subject to an amount corresponding to a fixed interest rate for the liability reported in the relevant period. Variable expenses are expensed for 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 to net income.

Interest income from financial instruments is recognised pursuant to 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 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 pursuant to 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 the 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 reported 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.

Acquisitions and divestments 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 valuation

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 first reporting, 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 income

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 positive fair values 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 accrued cost. Accrued 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 accrued 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. On first reporting, 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 pursuant to 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. Gains and losses on hedges are recognised in net income at the same time as gains and losses are reported 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 funding is converted to fixed interest (hedging of cash flows)
- For foreign net investments in subsidiaries where loans and currency derivatives are used as hedging instruments and restated in shareholders' equity.

(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 provision until the hedged item affects net income and as long as the criteria for hedge accounting and effectiveness are satisfied. The gain or loss attributable to the ineffective portion of unrealised value changes of interest swaps is recognised in net income.

(iv) Hedging of fair value interest risk

Interest swaps are used as hedging instruments for hedging the risk of changes in the fair value of funding with fixed interest. Therefore, in accounting, hedging of fair value is applied, and the hedged item is restated at fair value in terms of the hedged risk (the risk-free interest) and value

changes are recognised in net income in the same way as the hedging instrument.

(v) 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 or forward contracts, which are translated 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.

(vi) 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 pursuant to 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 removed from the Balance Sheet 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 initially valued 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 let 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 valued 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 Dec. 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.

At 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 pursuant to 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 10 years. The evaluation of each project's useful life and impairment are tested yearly. The year's capitalised expenditure for development was MSEK 17 (19) compared to the year's research and development expenses recognised in income of MSEK 145 (99).

(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	10 years

Useful lives are tested every year.

(vii) Emission rights

The allocation of CO₂ emission rights for the year has been reported as an intangible asset and deferred income, and valued at cost based on the first official quotation in the year. Used rights are reported at cost as cost of goods sold and provisions respectively. The corresponding contribution has reduced cost of goods sold and deferred income. Emission rights sold in the year were included in the item other operating income. Un-consumed emission rights have been reported at market value on the reporting date.

(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 pursuant to IAS 39, inventories, plan assets used to finance employee benefits and deferred tax assets. For assets subject to the above exemption, valuations are tested pursuant to the relevant standards.

(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, proportional impairment losses of other assets included in the unit (group of units) are effected.

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 debts of 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 accrued 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 divesting 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 pursuant to 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, Högånäs 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 pursuant to 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 at year-end of an investment grade corporate bond with a maturity corresponding to the Group's pension commitments. When there is no recognised market for such corporate bonds, the market yield on government 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 on 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. The 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 unreported 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 reported 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 pursuant to the rules

for share-based payments, which is 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 and sold CO₂ 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

Pursuant to 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 pursuant to the Swedish Annual Accounts Act (1995:1554) and RFR 2 (Rådet för finansiell rapportering, the Swedish Financial Reporting Board), *Accounting for Legal Entities*. 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 2010 have been altered in accordance with what is stated above for the Group.

RFR 2 *Accounting for Legal Entities* states that the amended IAS 1, *Presentation of Financial Statements* should also be applied to the Parent Company, with a few exceptions. One effect of this, compared to previous reporting, is the addition of a statement of comprehensive income after the income statement. Another effect is that the statement of changes in shareholders' equity has gained content resembling the Group's, i.e. excluding the revenue and expenses previously recognised directly in shareholders' equity, but now recognised in other comprehensive income in the statement of comprehensive income.

The amended accounting principles for the revised IFRS 3 *business*

combinations and amended IAS 27, *Consolidated and Separate Financial Statements* applied in the group do not result in the same amendments to the accounting principles of the Parent Company in respect of transaction expenditure and conditional purchase prices, see below in the 'subsidiaries' section (ii).

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 pursuant to 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) Long-term monetary dealings

Long-term monetary dealings between the Parent Company and independent foreign operations that represent an extension or reduction of the Parent Company's investment in foreign operations are measured at historical rates of exchange in the Parent Company.

(iv) 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.

(v) Leased assets

In the Parent Company, all leases are reported pursuant to the rules for operating leases.

(vi) Research and development

In the Parent Company, all expenditure for development is reported as a cost in the Income Statement.

(vii) 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.

(viii) 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.

(ix) Government subsidies

In the Parent Company, all government subsidies received for research and development are recognised as other operating income in the Income Statement, i.e. even such subsidies that are reported in the Consolidated Statement of Financial Position.

(x) Group contributions and shareholders' contributions for legal entities

The Company reports Group contributions and shareholders' contributions pursuant to the statement from RFR (UFR 2). 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. Group contributions are reported according to their economic substance, which means that Group contributions made and received with the aim of minimising the Group's total tax are reported directly against profit brought forward after deductions for their current tax effect.

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.

Accordingly, 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 comprises all powder that is refined into components. Consumables comprises powders that are used in processes, for example to produce metals, as an additive in chemical processes, surface coating or food supplements. Components represents 76% of Group sales and Consumables the remainder.

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's operating segments are divided into 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**Group****OPERATING SEGMENTS**

MSEK	Components		Consumables		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Income								
External sales	5,046	3,292	1,625	1,279			6,671	4,571
Internal sales	1,440	801	482	238	-1,922	-1,039	-	-
Total income	6,486	4,093	2,107	1,517	-1,922	-1,039	6,671	4,571
Earnings								
Operating income	829	181	285	77			1,114	258
Group items	-	-	-	-	-	40	-	40
Adjusted operating income	829	181	285	77	-	40	1,114	298
Financial income							11	5
Financial expenses							-41	-32
Tax							-280	-65
Net income							804	206
Assets								
Assets	4,086	3,524	1,517	1,483			5,603	5,007
Unallocated assets							64	111
Total assets							5,667	5,118
Liabilities								
Liabilities	739	548	285	277			1,024	825
Unallocated liabilities							1,404	1,640
Total liabilities							2,428	2,465
Other information								
Investments	231	193	71	72			302	265
Depreciation	-227	-215	-66	-75			-293	-290
Impairment	-	-23	-	-6			-	-29

Parent Company

MSEK	Components		Consumables		Total	
	2010	2009	2010	2009	2010	2009
Income						
External sales	-	1,988	-	423	-	2,411

CONT. NOTE 2 OPERATING SEGMENTS**GEOGRAPHICAL REGIONS****Group**

	Income from external customers		Assets		Fixed assets	
	2010	2009	2010	2009	2010	2009
Sweden	39	43	2,606	2,284	1,390	1,347
Europe	2,133	1,507	549	511	168	208
America	2,006	1,349	1,681	1,555	985	1,056
Asia	2,493	1,672	767	657	226	230
Total	6,671	4,571	5,603	5,007	2,769	2,841

Parent Company

	Income from external customers	
	2010	2009
Europe	-	1,215
America	-	223
Asia	-	973
Total	-	2,411

NOTE 3 OTHER OPERATING INCOME**Group**

MSEK	2010	2009
Exchange gains on receivables/liabilities relating to operations	73	21
Emission rights	-	40
Capital gain from sale of property in Höganäs	1	3
Capital gain from sale of machinery in Höganäs	3	-
Capital gain from sale of machinery in Brazil	-	2
Government subsidy	2	-
Other	-	3
Total	79	69

Parent Company

MSEK	2010	2009
Exchange gains on receivables/liabilities relating to operations	-	10
Emission rights	-	40
Government subsidy	7	-
Capital gain from sale of property in Höganäs	1	3
Total	8	53

NOTE 4 OTHER OPERATING EXPENSES

	Group		Parent Company	
	2010	2009	2010	2009
MSEK				
Exchange losses on receivables/liabilities relating to operations	84	33	1	21
Income, currency hedges	-	29	-	-
Income, cash flow hedges	5	65	-	65
Capital gain on intragroup transfer of assets and liabilities	-	-	562	-
Other	1	3	3	-
Total	90	130	566	86

NOTE 5 EMPLOYEES AND PERSONNEL EXPENSES

Expenses for employee benefits

Group

MSEK	2010	2009
Salaries and benefits, etc.	626	563
Pension costs, defined benefit plans (see Note 25)	9	18
Pension costs, defined contribution plans	43	37
Social security expenses	212	181
Total	890	799

Salaries, other benefits and social security expenses

Parent Company

MSEK	2010	2009
Salaries and benefits	85	281
Social security expenses	63	133
(of which pension costs)*	(29)	(41)
Total	148	414

* Of Parent Company pension costs, MSEK 2.3 (2.2) relates to the Board of Directors, CEO and SVP. The Company's outstanding pension commitments to these executives is MSEK 10.1 (6.0).

Average no. of employees

	2010	Of which men, %	2009	Of which men, %
<i>Parent Company in Sweden</i>	154	76	637	84
<i>Subsidiaries</i>				
Sweden	561	85	-	-
Belgium	134	90	133	90
Brazil	149	86	121	85
France	5	40	5	40
India	82	96	75	95
Italy	5	40	5	40
Japan	30	83	27	85
China	76	74	68	75
Korea	7	57	6	50
Russia	5	20	-	-
Spain	3	33	4	50
UK	26	77	24	79
Taiwan	8	38	7	43
Germany	10	50	10	50
USA	364	92	318	92
Total in subsidiaries	1,465	86	803	87
Group total	1,619	85	1,440	85

Salaries and other benefits by country and between Board members, etc. and other employees

	2010		2009	
MSEK	The Board, CEO & SVP	Other employees	The Board, CEO & SVP	Other employees
<i>Parent Company in Sweden</i>	11	74	11	271
(of which bonuses etc.)	(2)	(2)	(2)	(1)
Parent Company total	11	74	11	271
<i>Subsidiaries</i>				
Sweden	-	226	-	-
Belgium	-	46	-	50
Brazil	2	23	1	21
France	-	3	-	3
India	2	9	1	8
Italy	-	3	-	4
Japan	5	23	4	19
China	1	9	-	8
Korea	2	2	1	2
Russia	1	1	-	-
Spain	1	1	2	1
UK	-	9	-	8
Taiwan	1	2	1	3
Germany	2	6	2	6
USA	4	157	3	134
Total in subsidiaries	21	520	15	267
(of which bonuses etc.)	(2)	(-)	(1)	(-)
Group total	32	594	26	538

Of the salaries and benefits paid to other employees of the Group, MSEK 23.1 (22.0) relates to senior managers other than the Board of Directors, CEO and SVP.

Profit share system

Höganäs introduced a profit share system for all staff of the group in the year. This program runs for the period 2010-2012. Entitlement to profit sharing starts when the group's income after tax exceeds MSEK 344, and the full allocation is when income exceeds MSEK 482. The maximum allocation in the group for the profit share program 2010 is MSEK 24.1. This has been fully provisioned in the financial year 2010.

Sickness absence, %

Parent Company

	2010	2009
Total sickness absence as a share of scheduled working-hours	2.5	3.3
Share of total sickness absence that is continuous sickness absence of 60 days or more	53.1	35.4
Sickness absence as a share of each group's scheduled working-hours		
<i>Sickness absence by gender:</i>		
Men	2.0	3.2
Women	3.9	3.7
<i>Sickness absence by age group:</i>		
Up to age 29	1.4	3.9
Age 30-49	1.8	2.7
Age 50 or above	3.9	4.1

CONT. NOTE 5 EMPLOYEES AND PERSONNEL EXPENSES

Gender division of management, %

Group			Parent Company		
	2010 Percentage women	2009 Percentage women		2010 Percentage women	2009 Percentage women
The Board	1	1	The Board	10	10
Other senior managers	0	0	Other senior managers	0	0

NOTE 6 AUDITORS' FEES AND REIMBURSEMENT EXPENSES

	Group		Parent Company	
MSEK	2010	2009	2010	2009
<i>KPMG</i>				
Auditing	5.2	5.5	0.8	2.2
Auditing in addition to audit assignment	-	-	-	-
Tax consultancy	0.4	1.0	0.4	1.0
Other	0.8	0.6	0.8	0.5
<i>Other auditors</i>	-	-	-	-

Auditing means auditing of annual accounts and accounting records and the Board of Directors' and Chief Executive Officer's administration and other tasks 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	2010	2009	
<i>Included in cost of goods sold</i>				
Amortisation of intangible assets	11	6	8	
Depreciation of property, plant and equipment	12	235	243	
Impairment of property, plant and equipment		-	29	
Other expenses for goods production/consumption		4,589	3,331	
<i>Included in selling expenses</i>				
Amortisation of intangible assets	11	1	1	
Depreciation of property, plant and equipment	12	9	8	
<i>Included in administration expenses</i>				
Amortisation of intangible assets	11	16	6	
Depreciation of property, plant and equipment	12	12	12	
Personnel expenses	5			
Salaries and benefits		626	563	
Share-based payment		-	-	
Social security expenses		212	181	
Pension costs		52	55	
Total		890	799	

Research and development costs

The Consolidated Income Statement reports MSEK 145 (99) as research and development costs, of which amortisation comprises MSEK 14 (12). Direct production-related expenses in the form of amortisation of licences and capitalised development expenses of MSEK 6 (8) and selling expenses of MSEK 1 (1) respectively were charged to cost of goods sold.

NOTE 8 NET FINANCIAL INCOME /EXPENSE**Group**

MSEK	2010	2009
Interest income on bank balances	4	5
Net exchange rate differences	7	-
Financial income	11	5
Interest expenses on loans measured at amortised cost	-25	-21
Interest expenses attributable to interest swaps	-16	-8
Net exchange rate differences	-	-3
Financial expenses	-41	-32
Net financial income/expense	-30	-27

Income from participations in group companies

Parent Company

MSEK	2010	2009
Dividend	44	20
Total	44	20

Interest income and similar items

MSEK	2010	2009
Interest income, Group companies	4	23
Interest income, other	2	1
Income, cash flow hedges	105	-
Net exchange rate differences	114	47
Total	225	71

Interest expenses and similar items

MSEK	2010	2009
Interest expenses, Group companies	-3	-
Interest expenses, other	-38	-25
Income, cash flow hedges	-	-18
Net exchange rate differences	-	-
Total	-41	-43

NOTE 9 TAX

Reported in the Income Statement

Group

MSEK	2010	2009
Current tax expense (-) /tax income (+)		
Tax expense for the period	-267	-134
Adjustment of tax attributable to previous year	-3	-1
	-270	-135
Deferred tax expense (-) /tax income (+)		
Deferred tax relating to temporary differences	31	65
Deferred tax income in taxable value of loss carry-forwards capitalised in the year	-	10
Deferred tax expense in utilisation of previously capitalised taxable value of loss carry-forwards	-48	-1
Adjustment of deferred tax attributable to previous year	7	-4
	-10	70
Total reported tax expense in the Group	-280	-65

Parent Company

MSEK	2010	2009
Current tax expense (-) /tax income (+)		
Tax expense for the period	-5	-105
Adjustment of tax attributable to previous year	-	-
	-5	-105
Deferred tax expense (-) /tax income (+)		
Deferred tax relating to temporary differences	-16	-
	-16	-
Total reported tax expense in Parent Company	-21	-105

CONT. NOTE 9 TAX**Reconciliation of effective tax****■ Group**

MSEK	2010		2009	
Income before tax		1,084		271
Tax at current tax rate for Parent Company	26.3%	-285	26.3 %	-71
Effect of other tax rates for foreign subsidiaries	4.4%	-48	4.4 %	-12
Non-deductible costs	0.4%	-4	1.1 %	-3
Non-taxable income	-4.8%	52	-10.3 %	28
Utilisation of previously un-capitalised loss carry-forwards and temporary differences	-0.5%	5	-	-
Tax attributable to previous year	-	-	2.2 %	-6
Standard interest on tax allocation reserve	-	-	0.4 %	-1
Reported effective tax	25.8%	-280	24.1%	-65

■ Parent Company

MSEK	2010		2009	
Income before tax		83		415
Tax at current tax rate for Parent Company	26.3%	-22	26.3%	-109
Non-deductible costs	1.2%	-1	0.2%	-1
Non-taxable income	-14.4%	12	-1.4%	6
Other taxes	12.0%	-10	-	-
Standard interest on tax allocation reserve	-	-	0.2%	-1
Reported effective tax	25.1%	-21	25.3%	-105

Tax items reported in other comprehensive income**■ Group**

MSEK	2010	2009
Current tax attributable to hedging currency risk in foreign operation	-20	-35
Deferred tax attributable to hedging currency risk in foreign operation	-21	-23
Deferred tax attributable to cash flow hedges	-22	-52
Deferred tax attributable to exchange rate difference	-75	-21
Current tax attributable to exchange rate difference	-8	21
Total	-146	-110

■ Parent Company

MSEK	2010	2009
Current tax attributable to hedging currency risk in foreign operation	1	1
Deferred tax attributable to hedging	3	-51
Total	4	-50

Tax items reported directly against shareholders' equity**■ Parent Company**

MSEK	2010	2009
Current tax in Group contributions paid	19	20
Current tax in Group contributions received	-195	-1
Total	-176	19

CONT. NOTE 9 TAX**Deferred tax assets and liabilities reported in the Statement of Financial Position****Group**

MSEK	Deferred tax asset		Deferred tax liability		Net	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Intangible assets	-	-	12	13	-12	-13
Property, plant and equipment	-	-	342	363	-342	-363
Financial assets	-	-	11	8	-11	-8
Inventories	14	11	-	-	14	11
Accounts receivable—trade	4	8	-	-	4	8
Pension provisions	7	8	-	-	7	8
Interest-bearing liabilities	-	-	104	10	-104	-10
Financial instruments	-	-	25	3	-25	-3
Tax allocation reserves	-	-	-	21	-	-21
Other	7	-	-	3	7	-3
Loss carry-forwards	132	186	-	-	132	186
Tax assets/liabilities	164	213	494	421	-330	-208
Set-off	-114	-124	-114	-124	-	-
Tax assets/liabilities, net	50	89	380	297	-330	-208

Parent Company

MSEK	Deferred tax asset		Deferred tax liability		Net	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Accounts receivable—trade	-	5	-	-	-	5
Financial instruments	-	-	12	3	-12	-3
Pension provisions	4	4	-	-	4	4
Tax assets/liabilities	4	9	12	3	-8	6
Set-off	-4	-3	-4	-3	-	-
Tax assets/liabilities, net	-	6	8	-	-8	6

Un-reported deferred tax assets

Deductible temporary differences and 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. 2010	31 Dec. 2009
Deductible temporary differences, China	-	2
Deductible deficits (State tax), US	27	31
Total	27	33

CONT. NOTE 9 TAX

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

Group

MSEK	Balance as of 1 Jan. 2009	Reported in Income Statement	Reported in Other Comprehensive Income	Balance as of 31 Dec. 2009
Intangible assets	-14	1	-	-13
Property, plant and equipment	-400	27	10	-363
Financial assets	-8	-	-	-8
Inventories	17	-6	-	11
Accounts receivable—trade	4	4	-	8
Pension provisions	-	8	-	8
Interest-bearing liabilities	11	23	-44	-10
Financial instruments	51	-3	-51	-3
Tax allocation reserves	-60	39	-	-21
Other	34	-35	-2	-3
Loss carry-forwards	185	12	-11	186
Total	-180	70	-98	-208

MSEK	Balance as of 1 Jan. 2010	Reported in Income Statement	Reported in Other Comprehensive Income	Balance as of 31 Dec. 2010
Intangible assets	-13	1	-	-12
Property, plant and equipment	-363	7	14	-342
Financial assets	-8	-3	-	-11
Inventories	11	3	-	14
Accounts receivable—trade	8	-4	-	4
Pension provisions	8	-	-1	7
Interest-bearing liabilities	-10	2	-96	-104
Financial instruments	-3	-	-22	-25
Tax allocation reserves	-21	21	-	-
Other	-3	10	-	7
Loss carry-forwards	186	-47	-7	132
Total	-208	-10	-112	-330

Parent Company

MSEK	Balance as of 1 Jan. 2009	Reported in Income Statement	Reported in Other Comprehensive Income	Balance as of 31 Dec. 2009
Accounts receivable—trade	1	4	-	5
Financial instruments	51	-3	-51	-3
Other	2	-2	-	-
Pension provisions	3	1	-	4
Total	57	-	-51	6

MSEK	Balance as of 1 Jan. 2010	Reported in Income Statement	Reported in Other Comprehensive Income	Balance as of 31 Dec. 2010
Accounts receivable—trade	5	-5	-	-
Financial instruments	-3	-12	3	-12
Pension provisions	4	-	-	4
Total	6	-17	3	-8

NOTE 10 APPROPRIATIONS**Parent Company**

MSEK	2010	2009
Difference between reported depreciation and depreciation according to plan:		
Buildings and land	83	1
Machinery and other technical installations	474	67
Tax allocation reserve, net	80	147
Total	637	215

NOTE 11 INTANGIBLE ASSETS**Group**

MSEK	Goodwill	Capitalised development expenses	Patents and similar rights	Advances, intangible assets	Total
Cumulative cost					
Opening balance, 1 January 2009	134	26	165	42	367
Internally developed assets	-	13	-	-	13
Other investments	1	-	54	29	84
Sales and disposals	-	-	-27	-	-27
Other changes	-	6	43	-49	-
Exchange rate differences for the year	-6	-	-1	-	-7
Closing balance, 31 December 2009	129	45	234	22	430
Opening balance, 1 January 2010	129	45	234	22	430
Internally developed assets	-	-	-	-	-
Other investments	-	-	46	40	86
Sales and disposals	-	-	-56	-	-56
Other changes	-	2	44	-39	7
Exchange rate differences for the year	-5	-	-5	-	-10
Closing balance, 31 December 2010	124	47	263	23	457
Accumulated amortisation and impairment losses					
Opening balance, 1 January 2009	-34	-17	-68	-	-119
Amortisation for the year	-	-5	-15	-	-20
Other changes	-	-3	3	-	-
Exchange rate differences for the year	1	-	-1	-	-
Closing balance, 31 December 2009	-33	-25	-81	-	-139
Opening balance, 1 January 2010	-33	-25	-81	-	-139
Amortisation for the year	-	-5	-24	-	-29
Other changes	-	-	7	-	7
Exchange rate differences for the year	-	-	1	-	1
Closing balance, 31 December 2010	-33	-30	-97	-	-160
Carrying amounts					
As of 1 January 2009	100	9	97	42	248
As of 31 December 2009	96	20	153	22	291
As of 1 January 2010	96	20	153	22	291
As of 31 December 2010	91	17	166	23	297

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.

Group		
Goodwill	31 Dec 2010	31 Dec 2009
Höganäs Belgium S.A.	4	4
North American Höganäs, Inc.	6	6
North American Höganäs High Alloys LLC	50	54
Höganäs Brasil Ltda	10	10
Höganäs India Pvt Ltd	21	22
Total	91	96

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 3 and 10% 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 need 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 year relates to progress in India, where inflationary pressures affected general interest-rate conditions, and thus, primarily contributed to increased WACC compared to previous years.

Discount rate (before tax), %	2010	2009
<i>Cash-generating units</i>		
Höganäs Belgium S.A.	9.5	9.5
North American Höganäs, Inc.	12.1	12.4
North American Höganäs High Alloys LLC	12.5	12.4
Höganäs Brasil Ltda	10.4	10.4
Höganäs India Pvt Ltd	17.9	11.6

Other assumptions and comments

Average growth for units of the group of 6-8% are assumed for the next five years. Units in Asia and South America lie in the upper interval, while those 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, as a consequence of the recovery of the car industry. The growth rate in India is assumed to increase, and lies somewhat above the group's average growth rate because this market is relatively young. Good market growth is assumed mainly in South America and Asia, apart from Japan.

Raw materials prices are judged on current price levels.

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

Exchange rate forecasts are based on relevant quoted exchange rates and quoted forward rates, and are consistent with external forecast sources. Existing currency hedges have been considered.

Management judges that reasonable changes in the key assumptions would not have such a substantial effect that each of them should imply the recoverable amounts being at a value less than the carrying amount for each cash-generating unit.

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 January 2009	-	-	28	42	70
Other investments	-	-	54	29	83
Other changes	-	-	49	-49	-
Sales and disposals	-	-	-20	-	-20
Closing balance, 31 December 2009	-	-	111	22	133
Opening balance, 1 January 2010	-	-	111	22	133
Other investments	-	-	-	24	24
Other changes	-	-	42	-42	-
Sales and disposals	-	-	-57	-	-57
Closing balance, 31 December 2010	-	-	96	4	100
Accumulated amortisation					
Opening balance, 1 January 2009	-	-	-6	-	-6
Amortisation for the year	-	-	-7	-	-7
Closing balance, 31 December 2009	-	-	-13	-	-13
Opening balance, 1 January 2010	-	-	-13	-	-13
Sales and disposals	-	-	6	-	6
Amortisation for the year	-	-	-16	-	-16
Closing balance, 31 December 2010	-	-	-23	-	-23
Carrying amounts					
As of 1 January 2009	-	-	22	42	64
As of 31 December 2009	-	-	98	22	120
As of 1 January 2010	-	-	98	22	120
As of 31 December 2010	-	-	73	4	77

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

Parent Company

MSEK	Amortisation		Impairment	
	2010	2009	2010	2009
Cost of goods sold	-	1	-	-
Selling expenses	-	-	-	-
Administration expenses	16	6	-	-
Research and development costs	-	-	-	-
Total	16	7	-	-

Government and EU-funded research and development projects

Government subsidies received by the Group in the year were MSEK 7, of which MSEK 5 was capitalised. This relates mainly to the development of the direct-drive Electrical SMC Traction Motor. By using SMC materials, electric motors can be made lighter and smaller, while energy losses are reduced. The SMC material being developed by Höganäs is unique and is the foundation for achieving a compact and energy-efficient electric motor. This project is being run jointly with universities and industrial participants.

Höganäs is also conducting an EU-funded research project into fuel cells with industrial participants and research organizations from

Italy, France, Spain, Norway and Sweden. The aim is to produce an SOFC (Solid Oxide Fuel Cell). This fuel cell is ideally suited to generating electricity in household equipment, household heating, and for remote areas where there is no access to electric power, such as ski resorts etc. Höganäs' contribution to this project is to develop porous metallic plates to which electrodes and electrolyte can then be applied.

Borrowing costs

The Group has not capitalised any borrowing costs directly attributable to qualifying assets, because there are no such costs.

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 January 2009	1,206	3,721	288	225	5,440
Investments for the year	8	59	6	155	228
Sales and disposals	-16	-101	-21	-	-138
Other changes	25	143	13	-181	-
Exchange rate differences for the year	-19	-45	-3	-5	-72
Closing balance, 31 December 2009	1,204	3,777	283	194	5,458
Opening balance, 1 January 2010	1,204	3,777	283	194	5,458
Investments for the year	2	39	4	219	264
Sales and disposals	-2	-89	-8	-	-99
Other changes	28	158	14	-207	-7
Exchange rate differences for the year	-29	-93	-8	-6	-136
Closing balance, 31 December 2010	1,203	3,792	285	200	5,480
Accumulated depreciation					
Opening balance, 1 January 2009	-436	-2,174	-206	-	-2,816
Sales and disposals	14	84	20	-	118
Depreciation for the year	-36	-213	-21	-	-270
Exchange rate differences for the year	10	35	1	-	46
Closing balance, 31 December 2009	-448	-2,266	-206	-	-2,920
Opening balance, 1 January 2010	-448	-2,266	-206	-	-2,920
Sales and disposals	2	62	8	-	72
Other changes	-	-4	4	-	-
Depreciation for the year	-37	-212	-15	-	-264
Exchange rate differences for the year	9	50	8	-	67
Closing balance, 31 December 2010	-474	-2,370	-201	-	-3,045
Accumulated impairment losses					
Opening balance, 1 January 2009	-7	-45	-	-	-52
Impairment loss for the year	-	-29	-	-	-29
Exchange rate differences for the year	1	-	-	-	1
Closing balance, 31 December 2009	-6	-74	-	-	-80
Opening balance, 1 January 2010	-6	-74	-	-	-80
Impairment loss for the year	-	-	-	-	-
Sales and disposals	-	18	-	-	18
Exchange rate differences for the year	-	1	-	-	1
Closing balance, 31 December 2010	-6	-55	-	-	-61
Carrying amounts					
As of 1 January 2009	763	1,502	82	225	2,572
As of 31 December 2009	750	1,437	77	194	2,458
As of 1 January 2010	750	1,437	77	194	2,458
As of 31 December 2010	723	1,367	84	200	2,374

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 January 2009	558	2,149	153	147	3,007
Investments for the year	-	-	-	127	127
Sales and disposals	-5	-65	-13	-	-83
Other changes	4	91	11	-106	-
Closing balance, 31 December 2009	557	2,175	151	168	3,051
Opening balance, 1 January 2010	557	2,175	151	168	3,051
Investments for the year	-	-	-	16	16
Sales and disposals	-525	-2,087	-114	-155	-2,881
Other changes	-	7	3	-10	-
Closing balance, 31 December 2010	32	95	40	19	186
Accumulated revaluation					
Opening balance, 1 January 2009	30	-	-	-	30
Closing balance, 31 December 2009	30	-	-	-	30
Opening balance, 1 January 2010	30	-	-	-	30
Sales and disposals	-30	-	-	-	-30
Closing balance, 31 December 2010	-	-	-	-	-
Accumulated depreciation					
Opening balance, 1 January 2009	-257	-1,430	-128	-	-1,815
Depreciation for the year	-15	-119	-6	-	-140
Sales and disposals	4	51	12	-	67
Closing balance, 31 December 2009	-268	-1,498	-122	-	-1,888
Opening balance, 1 January 2010	-268	-1,498	-122	-	-1,888
Depreciation for the year	-1	-7	-2	-	-10
Sales and disposals	248	1,458	90	-	1,796
Closing balance, 31 December 2010	-21	-47	-34	-	-102
Accumulated impairment loss					
Opening balance, 1 January 2009	-	-	-	-	-
Impairment loss for the year	-	-29	-	-	-29
Sales and disposals	-	-	-	-	-
Closing balance, 31 December 2009	-	-29	-	-	-29
Opening balance, 1 January 2010	-	-29	-	-	-29
Impairment loss for the year	-	-	-	-	-
Sales and disposals	-	29	-	-	29
Closing balance, 31 December 2010	-	-	-	-	-
Carrying amounts					
As of 1 January 2009	331	719	25	147	1,222
As of 31 December 2009	319	648	29	168	1,164
As of 1 January 2010	319	648	29	168	1,164
As of 31 December 2010	11	48	6	19	84

Intra-group transfer of assets and liabilities

As of 1 January 2010, the operating activities of the parent company were transferred to Höganäs Sweden AB. This intragroup transfer was conducted at taxable values and involved operating receivables/liabilities and fixed assets. An intra-group capital loss of MSEK 562 arose. Subsequently, the parent company's operations consist of the delivery of group-wide services, such as IT, research and development, marketing and similar central functions.

CONT. NOTE 12 PROPERTY, PLANT AND EQUIPMENT**Assessed values****Group**

	31 Dec. 2010	31 Dec. 2009
Assessed values, buildings (in Sweden)	316	323
Assessed values, land (in Sweden)	106	111
Carrying amounts, buildings	171	281
Carrying amounts, land	73	38

Parent Company

	31 Dec. 2010	31 Dec. 2009
Assessed values, buildings (in Sweden)	24	323
Assessed values, land (in Sweden)	10	111
Carrying amounts, buildings	10	281
Carrying amounts, land	1	38

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

MSEK	Depreciation		Impairment	
	2010	2009	2010	2009
Cost of goods sold	-	129	-	29
Selling expenses	-	1	-	-
Administrative expenses	3	4	-	-
Research and development costs	7	6	-	-
Total	10	140	-	29

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 83% of the cost for the period 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.

Borrowing costs

The Group has not capitalised any borrowing costs directly attributable to qualifying assets, because there are no such costs.

NOTE 13 OPERATING LEASES**Leases where the Company is lessee**

Irrevocable lease payments amount to:

MSEK	Group		Parent Company	
	2010	2009	2010	2009
Within one year	11	9	1	4
Between one and five years	19	19	1	14
Longer than five years	7	10	-	-
Total	37	38	2	18

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 11 (11) for the Group and MSEK 1 (5) 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. 2010	31 Dec. 2009
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
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	St. 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 (China) Co., Ltd	Shanghai, China	100	100
North American Höganäs Holdings, Inc.	Hollsopple, US	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, US	67	67
Höganäs Brasil Ltda	Mogi das Cruzes, Brazil	100	100

Parent Company

MSEK	31 Dec. 2010	31 Dec. 2009
Cumulative cost		
At beginning of year	1,315	996
Capital contribution, Höganäs Belgium S.A.	2,183	-
Acquisition, Höganäs (GB) Ltd.	-	315
Capital contribution, Höganäs East Europe LLC	-	4
Closing balance, 31 Dec.	3,498	1,315
Cumulative impairment losses		
At beginning of year	-86	-86
Closing balance, 31 Dec.	-86	-86
Carrying amount in subsidiaries	3,412	1,229

CONT. NOTE 14 GROUP COMPANIES**Parent Company**

Specification of Parent Company direct holdings of participations in subsidiaries

MSEK	No. of shares	Share of equity, %	Carrying amount 31 Dec. 2010	Carrying amount 31 Dec. 2009
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	-	-
Höganäs Belgium S.A.	20,000	100	2,236	53
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	4	4
Höganäs Ibérica S.A.	4,000	100	-	-
Höganäs Taiwan Ltd	5,000	100	1	1
Höganäs Korea Ltd	40,000	100	2	2
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			3,412	1,229

NOTE 15 RECEIVABLES FROM GROUP COMPANIES**Parent Company**

MSEK	31 Dec. 2010	31 Dec. 2009
At beginning of year	1,039	1,476
Additional receivables	225	1
Settled receivables	-1,020	-357
Exchange rate differences for the year	-9	-81
Closing balance, 31 Dec.	235	1,039

NOTE 16 LONG-TERM RECEIVABLES**Group**

MSEK	31 Dec. 2010	31 Dec. 2009
Plan assets, pensions	50	34
Deposit	38	48
Investment loan issued	8	8
Derivatives held for hedging	6	1
Other	2	1
Total	104	92

Parent Company

MSEK	31 Dec. 2010	31 Dec. 2009
At beginning of year	2	-
Increase	-	2
Change in fair value	5	-
Closing balance, 31 Dec.	7	2

Of the parent company's long-term receivables, MSEK 6 (1) are derivatives that are held for hedging.

NOTE 17 INVENTORIES

Group			Parent Company		
MSEK	31 Dec. 2010	31 Dec. 2009	MSEK	31 Dec. 2010	31 Dec. 2009
Raw materials and consumables	592	365	Raw materials and consumables	-	210
Products in process	303	246	Products in process	-	140
Finished goods and goods for resale	686	541	Finished goods and goods for resale	-	145
Total	1,581	1,152	Total	-	495
<i>Increase (+) / decrease (-) in obsolescence provision reported in:</i>			<i>Increase (+) / decrease (-) in obsolescence provision reported in:</i>		
Income Statement	2	-11	Income Statement	-8	-8
Total	2	-11	Total	-8	-8

NOTE 18 ACCOUNTS RECEIVABLE—TRADE/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 MUS\$ 5 (10) 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 16 (23). 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 for 2010 was MSEK 8 (11), which is 0.12% of consolidated net sales.

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

Age analysis, overdue, un-impaired accounts receivable

Group		
MSEK, 31 Dec. 2010	Carrying amount un-impaired receivable	Collateral
Non-overdue accounts receivable	717	-
Overdue accounts receivable > 0-30 days	128	31
Overdue accounts receivable > 30-90 days	34	3
Overdue accounts receivable > 90-180 days	8	-
Overdue accounts receivable > 180-360 days	-	-
Overdue receivables > 360 days	2	-
Total	889	34
MSEK, 31 Dec. 2009	Carrying amount un-impaired receivable	Collateral
Non-overdue accounts receivable	571	51
Overdue accounts receivable > 0-30 days	109	14
Overdue accounts receivable > 30-90 days	16	1
Overdue accounts receivable > 90-180 days	10	-
Overdue accounts receivable > 180-360 days	1	1
Overdue receivables > 360 days	-	-
Total	707	67

Accounts receivable are reported considering the bad debt arising in the year. The provision for doubtful debts for the Group was MSEK 15 (31) at year-end. For the Parent Company, the provision for doubtful debt amounted to MSEK 0 (18).

CONT. NOTE 18 ACCOUNTS RECEIVABLE—TRADE/CREDIT RISK**Concentration of credit risk in accounts receivable—trade****■ Group**

31 Dec. 2010	No. of customers	% of total number of customers	% share of value
Exposure < MSEK 1	1,416	87	23
Exposure MSEK 1-50	217	13	77
Exposure > MSEK 50	-	-	-
Total	1,633	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		■ Parent Company	
MSEK	2010	2009	2010	2009
At beginning of year	31	14	18	5
Reversal of previous impairment	-25	-11	-18	-
Impairment loss for the year	9	28	-	13
Closing balance 31 Dec.	15	31	-	18

NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME

	■ Group		■ Parent Company	
MSEK	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Prepaid interest expense	3	1	12	-
Prepaid insurance premiums	3	1	-	-
Emission rights sold	17	38	-	38
Insurance compensation	1	1	-	-
Other items	17	15	5	8
Total	41	56	17	46

NOTE 20 CASH AND CASH EQUIVALENTS**■ Group**

MSEK	31 Dec. 2010	31 Dec. 2009
Cash and cash equivalents include the following components:		
Cash and bank balances	106	130
Total	106	130

■ Parent Company

MSEK	31 Dec. 2010	31 Dec. 2009
Cash and cash equivalents include the following components:		
Cash and bank balances	3	19
Total	3	19

Short-term investments 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 provisions in shareholders' equity**

Translation provision	31 Dec. 2010	31 Dec. 2009
Opening translation provision	53	51
Translation differences for the year	-292	-164
Less hedging of currency risk in foreign operation	115	166
Closing translation provision	-124	53
Hedging provision	31 Dec. 2010	31 Dec. 2009
Opening hedging provision	2	-143
Cash flow hedges:		
Change in fair value for the year	34	308
Transferred to net income	51	-112
Tax attributable to hedges for the year	-22	-51
Closing hedging provision	65	2
Dissolved against Income Statement	31 Dec. 2010	31 Dec. 2009
Cost of goods sold	67	-39
Other operating expenses	-	-65
Net financial income/expense	-16	-8
Total	51	-112
Total provisions	31 Dec. 2010	31 Dec. 2009
Opening provisions	55	-92
Change in provisions for the year:		
Translation provision	-177	2
Hedging provision	63	145
Closing provisions	-59	55

Share capital and number of shares

	No. of shares		Share capital	
MSEK	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
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. 2010	31 Dec. 2009
Opening re-purchased treasury shares	26	26
Sales in the year	-	-
Closing re-purchased treasury shares	26	26
Number		
Opening re-purchased treasury shares	293,800	293,800
Sales in the year	-	-
Closing re-purchased treasury shares	293,800	293,800

Provisions**Translation provision**

The translation provision 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 provision comprises exchange rate differences arising from revaluing liabilities reported as hedging instrument of a net investment in a foreign operation.

CONT. NOTE 21 SHAREHOLDERS' EQUITY**Hedging provision**

The hedging provision 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.

Profit brought forward including net income

Profit brought forward including net income includes accrued profits of the Parent Company and its subsidiaries. Previous provisions 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 dividends will be subject to approval by the AGM on 2 May 2011.

MSEK	2010	2009
SEK 10.00 (3.00) per share	348	104
Reported dividend per share, SEK	10.00	3.00

Parent Company

Changes in Parent Company's shareholders' equity are stated in the Statement of Changes in Parent Company Shareholders' Equity on page 47.

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 a part of the value change is recognised in shareholders' equity. A value change that is caused by an exchange rate change of a monetary item that comprises part of the Company's net investment in a foreign unit is reported to shareholders' equity in accordance with the Annual Accounts Act Chap. 4 § 14f.

Profit brought forward

Profit brought forward comprises previous year's non-restricted equity after potential provisions for statutory reserves, and after paying potential dividends. Alongside 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	31 Dec. 2010	31 Dec. 2009
Earnings per share before dilution (SEK)	23.11	5.92
Earnings per share after dilution (SEK)	23.11	5.92
Calculated here with the following components: Earnings attributable to Parent Company's shareholders	804	206
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	2010	2009
Accumulated depreciation and amortisation in addition to plan:		
<i>Intangible fixed assets</i>		
Opening balance, 1 January	-	-
Amortisation for the year in addition to plan	9	-
Other changes	5	-
Closing balance, 31 December	14	-
<i>Real estate used in business operations</i>		
Opening balance, 1 January	89	90
Depreciation for the year in addition to plan	-	-1
Sales and disposals	-83	-
Closing balance, 31 December	6	89
<i>Machinery and equipment</i>		
Opening balance, 1 January	526	593
Depreciation for the year in addition to plan	-3	-67
Sales and disposals	-480	-
Other changes	-5	-
Closing balance, 31 December	38	526
Tax allocation reserves		
Year of assessment 2009	-	80
Closing balance, 31 December	-	80
Total untaxed reserves	58	695

NOTE 23 INTEREST-BEARING LIABILITIES**Group**

MSEK	31 Dec. 2010	31 Dec. 2009
Long-term liabilities		
Credit facilities	797	1,111
Finance lease liabilities	17	19
Total	814	1,130
Current liabilities		
Overdraft facilities	55	135
Short-term bank loans	17	-
Short-term portion of finance lease liabilities	3	2
Total	75	137

Covenants and repayment periods

Current confirmed credit facilities were arranged by a syndicate of four banks in 2010, and this facility matures in January 2013. At year-end these facilities amounted to MEUR 175, of which MEUR 32 (106) had been utilised. All confirmed credit facilities are conditional on two covenants. Höganäs' debt/equity ratio may not exceed 1.5. At year-end this was 0.24 (0.43). Höganäs' interest coverage ratio adjusted for depreciation and amortisation may not be less than 4.0. At year-end, it was 34.6 (18.5). Additionally, unconfirmed credits were MSEK 1,957 (585), of which MSEK 569 (127) had been utilised at year-end.

Finance lease liabilities

Finance lease liabilities become due for payment as follows:

Group

	Minimum lease payments 2010			Minimum lease payments 2009		
MSEK		Interest 2010	Principal 2010		Interest 2009	Principal 2009
Within one year	5	1	4	7	1	6
Between one and five years	8	2	6	22	2	20
Longer than five years	8	2	6	11	3	8

NOTE 24 OTHER LONG-TERM LIABILITIES**Group**

MSEK	31 Dec. 2010	31 Dec. 2009
Other long-term liabilities		
Derivative instruments for hedging	15	12
Government subsidy, district heating facility	30	32
Other	7	12
Total	52	56
Liabilities that become due for payment after more than five years from the reporting date		
Government subsidy, district heating facility	22	24

Parent Company

MSEK	31 Dec. 2010	31 Dec. 2009
Other long-term liabilities		
Derivative instruments for hedging	15	12
Government subsidy, district heating facility	-	32
Total	15	44
Liabilities that become due for payment after more than five years from the reporting date		
Government subsidy, district heating facility	-	24

NOTE 25 EMPLOYEE BENEFITS**Defined benefit plans****Group**

MSEK	31 Dec. 2010	31 Dec. 2009
Present value of wholly or partly unit-linked commitments	374	372
Fair value of plan assets	-321	-303
Net wholly or partly unit-linked commitments	53	69
Present value of traditional assurance commitments	1	2
Present value of net commitments	54	71
Unreported actuarial gains (+) and losses (-)	-95	-93
Net reported for defined benefit plans (see below)	-41	-22
<i>The net amount is reported in the following items in the Statement of Financial Position:</i>		
Long-term receivables	-50	-34
Provisions for pensions	9	12
Net amount in Statement of Financial Position	-41	-22

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. 2010	31 Dec. 2009
Net commitment for defined benefit plans at beginning of year	-22	-16
Benefits paid	-17	-14
Deposited contributions	-10	-9
Expense reported in Income Statement	9	18
Exchange rate differences	-1	-1
Net commitment for defined benefit plans at year-end	-41	-22

Expense reported in the Income Statement**Group**

MSEK	2010	2009
Expenses for service in current period	6	6
Reported actuarial losses	3	4
Interest expense on the commitment	16	16
Expenses for service in previous periods	1	7
Expected yield on plan assets	-17	-15
Total net expenses in Income Statement	9	18

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

MSEK	2010	2009
Cost of goods sold	2	6
Selling expenses	2	4
Administrative expenses	3	5
Research and development costs	2	3
Total net expense in Income Statement	9	18
Actual yield on plan assets	22	35

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

	2010	2009
Discount rate as of 31 Dec., %	4.3	4.4
Expected yield on plan assets as of 31 Dec. , %	5.7	5.8
Future salary increase , %	3.1	3.0
Future increase of pensions, %	2.0	2.0

Change in commitment for defined benefit plan**Group**

MSEK	31 Dec. 2010	31 Dec. 2009
Commitments for defined benefit plans at beginning of year	374	366
Expense for service in current year	6	6
Interest expense	16	16
Expense for service in previous periods -	1	7
Actuarial gain (-) or loss (+)	10	9
Effect of reductions and settlements	-	-2
Disbursed pensions	-24	-21
Exchange rate differences	-8	-7
Commitments for defined benefit plans at end of year	375	374

Change of fair value of plan assets**Group**

MSEK	31 Dec. 2010	31 Dec. 2009
Fair value of plan assets at beginning of year	303	270
Expected yield on plan assets	17	15
Deposited contributions	10	7
Actuarial gain (-) or loss (+)	5	23
Disbursed pensions	-7	-7
Exchange rate differences	-7	-5
Fair value of plan assets at end of year	321	303

Historical information**Group**

MSEK	2010	2009	2008	2007	2006
Present value of defined benefit commitments	-375	-374	-366	-333	-315
Fair value of plan assets	321	303	270	309	319
Surplus/deficit in plan	-54	-71	-96	-24	4

CONT. NOTE 25 EMPLOYEE BENEFITS**Parent Company's pension commitments****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.

Net liability in Balance Sheet**Parent Company**

MSEK	31 Dec. 2010	31 Dec. 2009
Present value of commitment, unit-linked pension plans	179	219
Fair value of plan assets (pension fund)	-196	-224
Surplus in pension fund (-)/net commitment (+)	-17	-5
Present value of commitment, traditional assurance pension plans	3	5
Un-reported surplus in pension fund	17	5
Reported net liability	3	5

REMUNERATION AND OTHER BENEFITS TO SENIOR MANAGERS, 2010**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. 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. The principles of remuneration and other employment terms are unchanged on the previous year. No right to make decisions on any single issue has been delegated to the Remuneration Committee.

Performance-related pay

The Chief Executive Officer's bonus is determined as follows: 50% on consolidated profit after financial items, 25% on the companies' market shares in tons and 25% on the companies' operating income for high alloy metal powder. The maximum bonus is 50% of basic salary. Other members of the Group management receive bonuses related to achieving targets and income after tax at up to six months' salary.

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.

Group

MSEK	2010	2009
Expense for defined contribution plans	43	37

Parent Company

MSEK	2010	2009
Expense for defined contribution plans	17	18

Benefits

The Chief Executive Officer and other senior managers' 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 an occupational 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

2010 MSEK	Basic salary, Directors' fees	Performance-related pay	Other benefits	Pension expense	Share-based payment	Total	Pension commitments
Chairman of the Board, Anders G Carlberg	0.5	-	-	-	-	0.5	-
Board member, Urban Jansson	0.3	-	-	-	-	0.3	-
Board member, Bengt Kjell	0.3	-	-	-	-	0.3	-
Board member, Peter Gossas	0.2	-	-	-	-	0.2	-
Board member, Jenny Lindén Urnes	0.2	-	-	-	-	0.2	-
Board member, Bernt Magnusson	0.3	-	-	-	-	0.3	-
Board member, Erik Urnes	0.3	-	-	-	-	0.3	-
Chief Executive Officer, Alrik Danielson	5.3	2.6	0.2	1.8	2.3	12.2	9.7
Senior Vice President, Ulf Holmqvist	1.7	0.5	0.1	0.5	0.8	3.6	0.4
Other senior managers (9 people)	17.0	6.1	2.5	3.5	7.1	36.2	1.0
Total	26.1	9.2	2.8	5.8	10.2	54.1	11.1

2009 MSEK	Basic salary, Directors' fees	Performance-related pay	Other benefits	Pension expense	Share-based payment	Total	Pension commitments
Chairman of the Board, Anders G Carlberg	0.3	-	-	-	-	0.3	-
Former Chairman of the Board, Per Molin	0.3	-	-	-	-	0.3	-
Board member, Peter Gossas	0.2	-	-	-	-	0.2	-
Board member, Urban Jansson	0.3	-	-	-	-	0.3	-
Board member, Bengt Kjell	0.3	-	-	-	-	0.3	-
Former Board member, Oystein Krogen	0.1	-	-	-	-	0.1	-
Board member, Jenny Lindén Urnes	0.2	-	-	-	-	0.2	-
Board member, Bernt Magnusson	0.3	-	-	-	-	0.3	-
Board member, Erik Urnes	0.1	-	-	-	-	0.1	-
Chief Executive Officer, Alrik Danielson	4.8	1.5	0.2	1.7	0.3	8.5	5.7
Senior Vice President, Ulf Holmqvist	1.7	0.4	0.1	0.4	0.1	2.7	0.3
Other senior managers (9 people)	18.9	3.1	1.9	4.1	1.0	29.0	1.0
Total	27.5	5.0	2.2	6.2	1.4	42.3	7.0

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 executives' shareholdings are stated on pages 26–27 and 31.

Severance pay

Coincident with 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. Coincident with termination initiated by the Company, another 19 executives are entitled to up to 12 months' dismissal pay and severance pay of up to one year's salary, including pension benefits. No severance pay is due coincident with termination initiated by the employee.

Incentive schemes

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. Against this background, the average remaining time to exercise for outstanding options at the reporting date is nine months for the option plan 2007 and 30 months to the option plan 2009. The estimated value of the group's staff stock option plans was MSEK 46 at the end of the financial year.

A total of 111,580 options were granted to participants in the 2007 plan, which after re-statement 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 granted in the 2007 plan is SEK 221.50 per share. 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 the 2009 plan is SEK 114.20 per share.

To be able to conduct the staff stock option plan, the Board of Directors has been authorised to decide on the acquisition and transfer of class B treasury shares.

NOTE 26 PROVISIONS**Group**

	Reinstatement expenses		Adapting personnel		Emission rights		Other provisions		Total	
MSEK	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Carrying amount at beginning of period	16	16	-	19	34	-	9	1	59	36
Provisions in the period	1	-	-	-	60	34	3	8	80	42
Amount utilised in the period	-	-	-	-19	-64	-	-9	-	-89	-19
Carrying amount at end of period	17	16	-	-	30	34	3	9	50	59
Of which total long-term portion of provisions	17	16	-	-	-	-	3	9	20	25
Of which total short-term portion of provisions	-	-	-	-	30	34	-	-	30	34

Parent Company

Carrying amount at beginning of period	16	16	-	18	34	-	-	-	50	34
Provisions in the period	-	-	-	-	-	34	-	-	-	34
Intragroup transfer	-16	-	-	-	-34	-	-	-	-50	-
Amount utilised in the period	-	-	-	-18	-	-	-	-	-	-18
Carrying amount at end of period	-	16	-	-	-	34	-	-	-	50
Of which total long-term portion of provisions	-	16	-	-	-	-	-	-	-	16
Of which total short-term portion of provisions	-	-	-	-	-	34	-	-	-	34

Reinstatement expenses

The provision for reinstating a damming area for landfill was MSEK 16 at the beginning of the year. Estimated provisioning for the remaining commitments is MSEK 17. 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 CO₂ were received at the beginning of the year at a market value of MSEK 44. Utilised rights are reported at cost, as cost of goods sold and provisions. More information in accounting principles s (vii) on page 53.

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. 2010	31 Dec. 2009
Long-term liabilities		
Bank loans	800	1,100
Current liabilities		
Overdraft facility	8	79
Liabilities that become due for payment more than five years after the reporting date		
Bank loans	-	-

Approved overdraft facilities amount to MSEK 400 (250).

NOTE 28 ACCRUED EXPENSES AND DEFERRED INCOME

MSEK	Group		Parent Company	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Vacation pay liability	83	75	20	57
Social security expenses	47	34	19	31
Bonuses to customers	28	25	-	24
Staff stock option plans	22	3	11	-
Invoices not received	15	18	2	8
Staff bonuses	47	11	13	7
Interest	5	-	5	-
Government subsidies	7	2	-	2
Other items	68	51	3	21
Total	322	219	73	150

NOTE 29 PLEDGED ASSETS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

MSEK	Group		Parent Company	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Pledged assets				
In the form of pledged assets for own liabilities and provisions				
Property mortgages	20	22	10	10
Assets with ownership reservations	22	25	-	-
Total pledged assets	42	47	10	10
Contingent liabilities				
Pension commitments	17	17	17	17
Guarantees in favour of subsidiaries	-	-	254	258
Guarantees, other	67	64	10	62
Total contingent liabilities	84	81	281	337

NOTE 30 RATES OF EXCHANGE

Country	Local currency	Year-end rates of exchange		Average rates of exchange	
		31 Dec. 2010	31 Dec. 2009	Jan.-Dec. 2010	Jan.-Dec. 2009
Brazil	BRL	4.0560	4.1375	4.0925	3.8444
China	CNY	1.0300	1.0600	1.0643	1.1192
Denmark	DKK*	120.7500	139.1500	128.1273	142.6426
EMU	EUR	9.0020	10.3530	9.5413	10.6213
India	INR*	15.1500	15.4400	15.7528	15.7794
Japan	JPY*	8.3450	7.8450	8.2210	8.1784
Korea	KRW*	0.6005	0.6200	0.6232	0.5994
Norway	NOK*	115.2000	124.3000	119.1577	121.6225
Russia	RUB*	22.3100	23.8600	23.7263	24.0632
Taiwan	TWD	0.2342	0.2247	0.2293	0.2323
UK	GBP	10.5475	11.4850	11.1256	11.9260
US	USD	6.8025	7.2125	7.2049	7.6457

*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 19–21. 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 significant risks - financing risk, market risk and credit risk. Currency, interest, metal and energy derivatives are used as hedging instruments pursuant to the guidelines stated by the Board of Directors and Finance Committee.

Market risk

Market risk is the risk arising through commercial flows in foreign currency operations 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, accounts receivable—trade and accounts payable—trade, and partly the currency risk in relation to expected

and contracted payment flows.

99% (99) of Höganas' sales were to countries outside Sweden in 2010. Total net revenues in foreign currencies in 2010 were some MSEK 6,667 (4,567). The largest flow currencies were EUR, JPY and USD.

The objective of Höganas' 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 -45 (-13) in operating income and MSEK 7 (-3) in net financial income/expense.

At year-end 2010, the Group had the following currency hedges for expected payment flows in EUR, JPY, USD and GBP for 2011. 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 2010 was MSEK 74 (-94).

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

Outstanding hedges of currency flows

31 December 2010	EUR/SEK		USD/SEK		JPY/SEK		GBP/SEK	
	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, 2011	19.2	9.78	20.4	7.08	525	0.079	0.18	10.96
Q2, 2011	19.2	9.58	20.4	7.39	525	0.082	0.18	10.99
Q3, 2011	19.2	9.41	20.4	6.89	525	0.084	0.18	11.01
Q4, 2011	18.05	9.34	20.4	7.14	525	0.084	0.18	10.95
Total	75.65	9.53	81.6	7.14	2,100	0.082	0.72	10.97
	(53.1)	(10.5)	(51)	(7.26)	(1,800)	(0.084)	(0)	(0)

Rate of exchange ruling on reporting date,
31 December 2010

9.002

6.8025

0.08345

10.5475

Value change (MSEK)³ reported in hedging
provision, 31 December 2010

35

23

-2.3

0,3

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 cash flows.

In addition to the above hedging, Höganas 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 one month. 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. In recent years, Höganäs has significantly increased its conversion exposure through acquisitions and investments in fixed assets. 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 occurrences 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 provision for net investments in subsidiaries was MSEK 44 (43) at year-end. The translation difference is reported in Note 21 Shareholders' Equity.

Hedged portion of net assets by currency

MSEK	31 Dec. 2010	%	31 Dec. 2009	%
USD	1,257	30	1,258	103
EUR	459	49	352	94
JPY	261	87	280	101
GBP	53	80	57	110
Total	2,030		1,947	

(b) Interest risk

Interest risk is a 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 889 (1,267) and the average fixed interest period on these liabilities was some 1.47 (0.91) years including interest swaps and some 0.2 (0.1) years excluding interest swaps. Short-term investments and cash and cash equivalents were MSEK 106 (130) and the average fixed interest period on these assets was 0 (0) months.

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. 2010	Total ¹	2011	2012	2013	2014	2015
EUR	25	-	25	-	-	-
GBP	4	4	-	-	-	-
USD	55	20	-	25	10	-
JPY	1,895	895	1,000	-	-	-

31 Dec. 2009	Total ¹	2010	2011	2012	2013	2014
EUR	35	10	-	25	-	-
GBP	4	4	-	-	-	-
USD	75	20	20	-	25	10
JPY	1,895	895	-	1,000	-	-

¹ Amounts expressed in millions of local currency.

The company had interest swaps with a nominal value of MSEK 683 (842) on the reporting date, which have been reported against shareholders' equity. On the reporting date, the fair value of the swaps was MSEK -10 (-12). Effective interest excluding interest swaps at year-end was 1.15% (0.58).

(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, electricity and oil. 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 19–21.

(i) Electricity and gas/oil

Höganäs' production consumes a substantial amount of energy. The Group's procurement of electricity, oil and natural gas corresponded to MSEK 420 (302) in 2010.

Outstanding hedges on electricity

31 December 2010	Volume ¹	Price ²
Maturing 2011	196	417
Maturing 2012	105	426
Total	301	

Spot price, 31 December 2010 771

Value change (MSEK)³ reported in hedging provision, 31 December 2010 47

¹ Volume is expressed in GWh (electricity)

² Average forward price in SEK (electricity)

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

	Financial assets & financial liabilities measured at fair value via Income Statement ¹	Derivatives used in hedge accounting	Loans receivable and accounts receivable	Financial liabilities reported at accrued cost	Total carrying amount	Total fair value
31 Dec. 2010						
Long-term receivables	-	6	-	-	6	6
Accounts receivable— trade	-	-	889	-	889	889
Other receivables	2	116	-	-	118	118
Cash and cash equiva- lents	-	-	106	-	106	106
Total	2	122	995	-	1,119	1,119
Long-term interest- bearing liabilities	-	-	-	814	814	814
Other long-term liabilities	-	15	-	-	15	15
Current interest-bearing liabilities	-	-	-	75	75	75
Accounts payable—trade	-	-	-	553	553	553
Other liabilities	-	14	-	-	14	14
Total	-	29	-	1,442	1,471	1,471
31 Dec. 2009						
Long-term receivables	-	1	-	-	1	1
Accounts receivable— trade	-	-	707	-	707	707
Other receivables	3	38	-	-	41	41
Cash and cash equiva- lents	-	-	130	-	130	130
Total	3	39	837	-	879	879
Long-term interest- bearing liabilities	-	-	-	1,130	1,130	1,131
Other long-term liabilities	-	12	-	-	12	12
Current interest-bearing liabilities	-	-	-	137	137	137
Accounts payable—trade	-	-	-	441	441	441
Other liabilities	2	22	-	-	24	24
Total	2	34	-	1,708	1,744	1,745

¹ Fair value option is not applied.

The above table also reflects the Parent Company's allocation apart from electricity derivatives that are held by other group companies. Electricity derivatives comprised an asset item of MSEK 46 as of 31 Dec. 2010 and are included in the 'Derivatives used in hedge accounting' category in 'Other receivables' in the above table.

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 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.

MSEK	Tier 1		Tier 2		Tier 3	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Long-term receivables	-	-	6	1	-	-
Accounts receivable—trade	-	-	-	-	-	-
Other receivables	47	3	71	38	-	-
Cash and cash equivalents	-	-	-	-	-	-
Total	47	3	77	39	-	-
Long-term interest-bearing liabilities	-	-	-	-	-	-
Other long-term liabilities	-	-	15	12	-	-
Current interest-bearing liabilities	-	-	-	-	-	-
Accounts payable—trade	-	-	-	-	-	-
Other liabilities	4	11	10	13	-	-
Total	4	11	25	25	-	-

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. 2010	31 Dec. 2009
Share capital	175	175
Translation reserve	-124	53
Hedging reserve	65	2
Profit brought forward incl. net income	3,123	2,423
Non-controlling interests	-	-
Total	3,239	2,653

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

27.6% (7.2). Calculated as return on equity, the figure was 27.3% (8.1). As a comparison, the effective interest for the loan portfolio based on average borrowings for the year was 1.15% (0.6).

The Board of Directors' intention is to have an annual dividend level of some 30-50% of net income. The proposed dividend for the year of SEK 10.00 (3.00), corresponds to 43% (50) of income. Dividend levels should be adapted to Höganäs' income level and future prospects, cash flow, investment need and other relevant factors. In the past five-year period, average dividends correspond to 50% of net income.

The Board of Directors' objective is to increase employees' shareholdings of the group. As a result, a performance-based staff stock option plan for the CEO and 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 2010 to re-purchase up to 10% of Höganäs' shares with the aim of covering commitments relating to the staff stock option plans of 2007 and 2009. The Group has re-purchased shares on several occasions, although no re-purchases were made in 2010. To some extent, the timing of these transactions was determined by the share price. The re-purchased treasury shares are mainly intended for the Group's option plans. There is no formal re-purchasing plan, but rather, purchase and sales decisions regarding the Group's shares are taken by the Board of Directors. For the AGM 2011, the Board of Directors is proposing that the shareholders resolve on re-purchasing treasury shares.

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.

Parent Company

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	2010	-	-	-	-	9
	2009	-	2	-	1	13
Höganäs Sweden AB	2010	-	-	2	231	252
	2009	-	-	-	3	-
Höganäs HOGAP AB	2010	-	-	-	1	-
	2009	-	-	-	2	-
Höganäs Belgium S.A.	2010	-	-	-3	238	4
	2009	4	5	3	222	4
Höganäs (GB) Ltd	2010	-	-	-	72	1
	2009	-	-	-	50	1
Höganäs Japan K.K.	2010	-	-	18	-	3
	2009	298	-	1	-	75
Höganäs France S.A.S.	2010	-	-	-	2	-
	2009	-	-	-	1	-
Höganäs GmbH	2010	-	-	3	24	-
	2009	-	-	-	-	-
Höganäs Italia S.r.l.	2010	-	-	6	-	-
	2009	-	-	-	1	-
Höganäs India Pvt Ltd	2010	-	-	-	-	3
	2009	28	14	-	1	3
Höganäs East Europe LLC	2010	-	-	-	-	-
	2009	-	-	-	-	-
Höganäs Ibérica S.A.	2010	-	-	-	6	-
	2009	-	-	2	-	-
Höganäs Taiwan Ltd	2010	-	-	6	-	-
	2009	26	-	13	-	1
Höganäs Korea Ltd	2010	-	-	4	-	-
	2009	7	-	6	-	-
Höganäs (China) Col, Ltd	2010	-	-	10	-	7
	2009	108	-	-	-	33
NAH Holdings, Inc.	2010	-	-	2	-	-
	2009	-	-	-	-	788
North American Höganäs, Inc.	2010	-	-	-	23	15
	2009	138	36	12	14	23
NAH Financial Holding AB	2010	-	-	-	692	-
	2009	-	-	-	619	-
Höganäs Brasil Ltda	2010	-	-	1	-	29
	2009	70	-	6	-	196
Total	2010	-	-	49	1,289	323
	2009	679	57	43	914	1,137

The Parent Company has guarantees in favour of subsidiaries of MSEK 254 (258). The Parent Company has received dividends from subsidiaries of MSEK 44 (20).

NOTE 33 SIGNIFICANT ESTIMATES AND JUDGMENTS

Group management and the Board of Directors make judgements and estimates regarding the future. These judgements and estimates affect the accounts and other financial information presented, including contingent liabilities. These judgements are based on historical experience and the various estimates 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 judgements being made or other circumstances arising. Segments including such estimates and judgements 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 91 (96), 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 residual value 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 closure. Assets are recognised at the lower of the carrying amount and fair value after deducting selling expenses.

Measurement of current and deferred tax assets and liabilities

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 132 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 for defined-benefit plans was MSEK -41 (-22) at the end of the year. The value of pension commitments 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 the present value of the fair value of the defined benefit pension commitment or the fair value of plan assets. The net of un-reported actuarial losses was MSEK 95 (93) at year-end.

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 2010 comprise the Parent Company and its subsidiaries, collectively termed the Group.

Audit Report

*To the Annual General Meeting of shareholders of Höganäs AB (publ)
Corporate Identity No. 556005-0121*

We have audited the annual accounts and consolidated accounts, the accounting records and the administration of the Board of Directors and the Chief Executive Officer of Höganäs AB (Publ) for the year 2010. The annual accounts and consolidated accounts of the Company are included in the printed version of this document on pages 35–90. These accounts and the administration of the Company, and the application of the Swedish Annual Accounts Act when preparing the annual accounts, and the application of IFRS (International Financial Reporting Standards) as endorsed by the EU and the Swedish Annual Accounts Act when preparing the consolidated accounts, are the responsibility of the Board of Directors and the Chief Executive Officer. Our responsibility is to express an opinion on the annual accounts and the consolidated accounts, as well as the administration based on our audit.

We conducted our audit in accordance with generally accepted accounting principles in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Chief Executive Officer and significant estimates made by the Board of Directors and the Chief Executive Officer when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion concerning discharge from liability, 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 Swedish Companies Act, the Swedish Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with IFRS as endorsed by the EU and the Swedish Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We recommend to the Annual General Meeting that the Income Statement and Balance Sheet for the Parent Company and the Income Statement and Statement of Financial Position for the Group be adopted, that the profit of the Parent Company be dealt with 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, 16 March 2011
KPMG AB



Alf Svensson
Authorised Public Accountant

Five-year overview and quarterly data

FIVE-YEAR OVERVIEW

MSEK	2006	2007	2008	2009	2010
Net sales	5,123	5,838	6,103	4,571	6,671
Operating income	602	607	527	298	1,114
Net financial income and expenses	-77	-45	-44	-27	-30
Income before tax	525	562	483	271	1,084
Net income	402	431	394	206	804
Operating margin, %	11.8	10.4	8.6	6.5	16.7
Net margin, %	10.2	9.6	7.9	5.9	16.2
Total assets	5,099	5,191	5,642	5,118	5,667
Shareholders' equity	2,625	2,766	2,406	2,653	3,239
Capital employed	3,736	3,880	4,370	3,932	4,137
Return on capital employed, %	15.5	15.9	12.8	7.2	27.6
Return on equity, %	15.5	16.0	15.2	8.1	27.3
Equity/assets ratio, %	51.5	53.3	42.6	51.8	57.2
Net indebtedness	1,032	903	1,743	1,149	792
Debt/equity ratio, multiple	0.39	0.33	0.72	0.43	0.24
Risk capital/assets, %	59.9	61.0	48.0	57.6	63.9
Interest coverage ratio, multiple	7.8	13.5	12.0	11.0	37.1
Rate of capital turnover, multiple	1.32	1.53	1.48	1.10	1.65
Operating cash flow	429	314	217	629	410
Cash flow after investments	429	314	220	626	410
Investments	219	176	375	265	302
Average number of employees	1,579	1,563	1,589	1,440	1,619
Net sales per employee	3.29	3.67	3.84	3.17	4.12

QUARTERLY DATA

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
MSEK	2009	2009	2009	2009	2010	2010	2010	2010
Net sales	916	1,098	1,193	1,364	1,548	1,783	1,728	1,612
Operating income	-111	54	142	213	282	333	261	238
Operating margin, %	-12.1	4.9	11.9	15.6	18.2	18.7	15.1	14.8
Income before tax	-119	49	135	206	274	327	250	233
Net income	-90	37	102	157	207	246	189	162
Earnings per share, SEK	-2.58	1.05	2.94	4.50	5.94	7.07	5.43	4.66

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 pursuant to 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.

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Höganäs has developed an efficient and compact electric motor for bicycles. We have been able to combine high efficiency with a modular design thanks to the three-dimensional soft magnetic characteristics of metal powder. Accordingly, the motor is suitable for a raft of applications such as scooters and other light vehicles, pumps, fans and generators.

This motor has been developed to minimise environmental impact. The stator is made from metal powder produced from scrap raw material and the design enables efficient recycling. It also uses less rare earth metals and copper wire than conventional electric motors.

A great example of the Power of Powder.