Höganäs

Power of Powder

"Empowering powder technology"

Annual Report 2009

The Power of Höganäs

Our vision

We **push the limits of metal powders**

Our strategy

We work the **value chain**

Act **innovatively**

Are **effective**

Create **value**

Our soul

Active

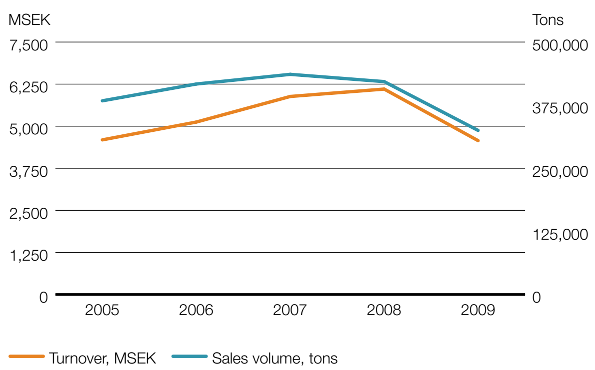
Brave

Caring

The year in brief

- Very weak start to the year due to de-stocking right through the value chain and lower demand
- Adapting production to lower output rates in the first quarter
- Notable demand improvement progressively through the second half-year
- Sharp focus on cash flow and costs right through the year
- Inauguration of the PoP (Power of Powder) Centre in Höganäs in October gets a fantastic response from customers and end users
- Feasibility study for DRI/HBI with a reduced environmental impact in partnership with LKAB and Statoil - IRONMAN

Turnover and sales volumes



Group key indicators

	2007	2008	2009
Net sales, MSEK	5,838	6,103	4,571
Operating margin, %	10.4	8.6	6.5
Income before tax, MSEK	562	483	271
Income after tax, MSEK	431	394	206
Equity/assets ratio, %	53.3	42.6	51.8
Return on capital employed, %	15.9	12.8	7.2
Earnings per share, SEK	12.39	11.31	5.92
Dividend, SEK	6.25	3.00	3.00
Average number of employees	1,563	1,589	1,440

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The world's leading developer of powder metallurgy

Höganäs is the world leader in metal powder. Apart from producing the most consistent and highest-quality metal powder, we possess leading-edge competence in how to use powder to utilise its characteristics optimally. Accordingly, alongside our customers and partners, we can continuously extend the usage of powder technology to new applications. That's what we call the Power of Powder.

What do we do?

We make metal powder. By giving it different shapes, densities, sizes, and sometimes surface coatings, and by mixing iron and other alloys, we give our powder different characteristics for specific applications.

We do this through two main processes. Firstly, direct reduction of iron ore, yielding porous iron sponge powder. This is called the Höganäs process and is performed by just a few producers worldwide. This powder has a broad range of applications: components, in welding electrodes, toner carriers in photocopiers and as a food supplement.

We also smelt metal scrap and pulverise it with high-pressure gas or liquid. This is how most grades of metal powder are produced, used for components, surface coatings and brazing, for example.

Höganäs has 11 production facilities in 8 countries across 4 continents and sales offices and agents in 29 countries. Höganäs' total production capacity is nearly half a million tons.

Value chain

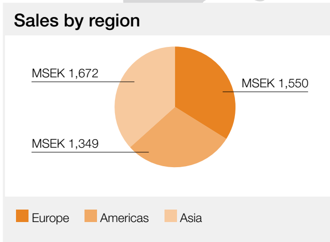
Iron ore or scrap

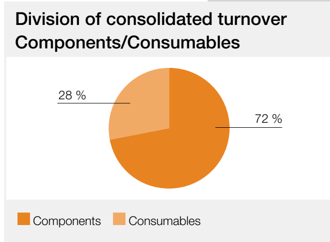
Höganäs' refining processes

POWER OF POWDER
Iron powder and high alloys
EXCHANGE OF BEST PRACTICE
PARTNERSHIP

Höganäs in figures

- 2,650 customers in 75 countries
- 634 patents in force
- Turnover: MSEK 4,571
- Income before tax: MSEK 271
- 1,440 employees
- Listed on NASDAQ OMX Stockholm since 1994





What is Höganäs' metal powder used for?

One of Höganäs' strengths is the extremely consistent quality and high performance of its metal powder. It is used in two main applications. In the most common applications, the powder is pressed and moulded under high pressure into complete components used in engines, gearboxes, electric tools, household appliances, locks, lawnmowers and sewing machines. Powder can also be utilised in powder form, in applications like additives for brazing or welding, as surface coatings or for water and air treatment.

Our history

Höganäs AB was founded in 1797 to extract coal. Although clay was one bi-product, we later became a major producer of firebricks. In the early 20th century, we started to reduce iron ore into raw iron, but moved on to metal powder in the post-war period. We have been focusing on metal powder since 1988.

POWER OF POWDER

The powder is pressed by component manufacturers or used in powder form for surface coatings, water treatment, etc.

EXCHANGE OF BEST PRACTICE PARTNERSHIP

Lighter auto components, more efficient and environmental engines, cheaper water filters, more efficient brazing

We are a stronger company today!

2009 was a year of extremes. It started with record-low sales and heavy losses in the first quarter, and finished with a strong improvement in profitability. Cash flow was consistently robust. Meanwhile, Höganäs continued expanding on new markets and introducing new products and services to support our customers, and their customers.

Focusing on the short perspective

The outlook was gloomy on all markets in early-2009. Our customers, and their customers, were experiencing extremely low demand. Meanwhile, they were also carrying stock that they were trying to reduce.

The restructuring package Höganäs presented in the fourth quarter of 2008 was executed in the early months of the year. Production was adapted to the low volumes, and although the Company posted heavy losses in this period, we succeeded in maintaining a stable positive cash flow.

With consideration to the prevailing conditions, resources were initially concentrated on cash flow and getting profitability in our businesses in the short term. We worked hard on cost control, capital rationalisation and short-term marketing activities. Our consistent aim was to adapt to the weak demand conditions and very low sales volumes that characterised the first part of the year.

Positive progress step by step

The first signs of recovery came from India, where the crisis actually only lasted for one quarter. In the second quarter, China and Southeast Asia also started to show signs of improvement, and after the summer, the same tendency was also apparent across Europe, the Americas and Japan.

As volumes expanded, we gradually adapted production levels and succeeded in running our business favourably, which was apparent in our earnings. In this phase, we increased capital employed but cash flow remained strong right through the year.

Initiatives for the longer term

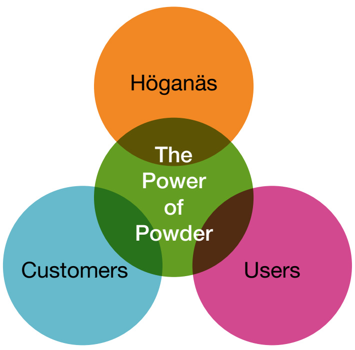
Despite all our short-term activities in an extremely tough first half-year, we never lost focus on developing our business for the longer perspective. We launched a series of new cost-efficient powders with lower alloy content. We introduced new additives for higher performance and process efficiency, and a raft of new services in our existing market segments.

We were also active on our marketing side, expanding our Tech Centre in China as an investment in continued growth in this market, and started up Höganäs East Europe LLC in St. Petersburg, Russia in the autumn, and it is from here that we will be leading our work on the faster expansion of business activities in Central and Eastern Europe.

Power of Powder

Metal powder is a creative material that opens a lot of new routes towards more cost-efficient and superior alternatives. The material has an unbelievable inherent 'power'. We share a vision with our customers: to push back the limits of powder metallurgy.

To realise this vision and exploit our business opportunities, we need to bring players still closer together, and work creatively to help our customers and users to discover these new opportunities. The closer and more concretely we collaborate in the value chain, the more opportunities



The Power of Powder is unleashed when we bring the different members of the value chain together. That's why we have created the Power of Powder Centre in Höganäs, where we integrate applications, processes and metal powder under one roof to push back the limits of powder metallurgy. By developing closer and more integrated partnerships, we create the prospects for more effective and faster development work, which benefits all parties.

"Despite all our short-term activities in an extremely tough first half-year, we never lost focus on developing our business for the longer perspective."

for profitable business will be created for the different stakeholders - and thus profitable growth for everyone too. The Power of Powder is a catalyst to stimulate development, enabling existing products to get new performance. First and foremost, it opens opportunities for creative innovations.

The new PoP Centre

Höganäs' Power of Powder Centre, inaugurated in autumn 2009, is an important tool to realise this vision. It's where Höganäs' - and thus the world's - leading metal powder experts work closely with customers and users to make visions reality in short lead-times. They are backed by equipment at the absolute cutting edge of technology.

The PoP Centre enables fast prototyping to test and verify that theories and ideas really work in practice. The Centre has got off to a flying start and will be playing a key role in Höganäs' future development - and in taking powder metallurgy to its full potential. It is already on the way to becoming an important meeting-place for anyone that wants to be part of taking powder metallurgy to a new level.

Strengthened by the recession

One precondition of market leadership is for us to retain and strengthen our cost leadership. As the world's largest and only specialised producer in our segment, we should be the most competitive player.

Right through the year, we maintained a sharp focus on costs and on finding new, more effective production processes and working methods, which is part of our major research and development focus.

This means that today, we are stronger than we have been for a long time. We demonstrated our ability to adapt ourselves quickly to change without losing focus on longer-term strategic issues.

At the time of writing it's hard to predict how long the effects of the prevailing recession will last. We see a lot of opportunities ahead, and a lot of hard work awaits us. But we have an important role to play.

Earnings for the year

Operating income for the year was MSEK 298 (527). The negative variance was caused by lower sales volumes (-23%), primarily in the first half-year. Moreover, a low inventory turnover rate meant that earnings were charged with relatively high metal costs. This was partly offset by implementing cost savings and price increases. Thanks to rising volumes, cost absorption improved, and was very positive in the second half-year.

Until the third quarter inclusive, earnings also benefited from more favourable exchange rates than in 2008. The market progressed strongly in the fourth quarter, primarily in Asia. Sales volumes in China and India were the highest ever.

It is reasonable that Asia and South America will be the markets where the recovery will be most noticeable going forward, led by brisk domestic demand growth. The short-term demand situation in other regions remains uncertain.

Höganäs, Sweden, 8 February 2010

Alrik Danielson
CEO and President

Vision, goals and strategies

Höganäs' vision is to push back the limits of powder metallurgy. Building on the Company's market leadership and competence, the Company will develop new applications in collaboration with partners and customers. Creating cost-efficiency, innovation and environmental benefits are the focus of this work.

Financial goals

- Operating margin of 15%
- Return on capital employed of 20%
- Yearly growth of 6 to 8% over a business cycle

Höganäs is the world leader in metal powder. Over 60 years' experience has given the Company a strong market position and unique competence. Few others know as much as Höganäs' engineers about how to make metal powder with consistent high quality and the right characteristics. The Company also possesses unique competence in how to produce sinter components to make them as good as possible.

This is where Höganäs' strategies for realising this vision start from. The Company will firstly secure its positioning as the leader in metal powder, and secondly, develop new customer value-added in existing and new powder applications.

Securing our position as the metal powder leader

Market-leading quality

For the metal powder industry's customers, like producers of components or welding electrodes, it is important that powder performs consistently, batch after batch, year after year. Otherwise, this can cause production process problems or product quality deficiencies.

Höganäs has maintained the market's most consistent and highest quality since production started. This is what gives Höganäs its current status as market leader.

Continuous product development

Höganäs continuously develops new powder grades with new characteristics to address new needs. Its soft magnetic composite powders, with three-dimensional electromagnetic characteristics are an example. They bring entirely new possibilities for designing electric motors over using traditional manufacturing methods. These motors have lower production costs and are more energy-efficient than conventional equivalents.

But it is not just the nature of powder that influences the efficiency of the customer's production process and the quality of finished products. Another important factor is how quickly and evenly powder can be filled in presses. This is why Höganäs also continuously develops new additives, including binding agents, which radically improve the filling process and the quality of finished products. Launches in 2009 included the lubricant Intralube E. More on page 17.

Creating new applications and markets

Developing application competence

A wide range of products or product components become far better and cheaper using sinter components rather than lathed steel or sheet laminates. Often, the production process becomes faster and more effective, material wastage is far lower, and sometimes virtually zero, while products are lighter, offering environmental benefits for users in a range of applications, such as the automotive industry. Some components can also be manufactured in completely new ways, giving them altogether new functionality.

But the usage of powder is not confined to components. There are many other applications. For example, a metal surface can gain completely new anti-corrosive qualities and strength in a few seconds using a dedicated laser robot. Water treatment with metal powder has also proved effective from an environmental perspective.

The possibilities of powder are far greater and more extensive than indicated by current usage, and this is largely due to knowledge being limited. Höganäs works actively to increase this understanding at every level. The Company has created the Power of Powder concept for communication through the value chain.

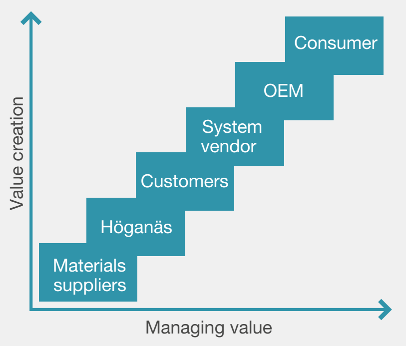
Höganäs is continuously enhancing the Company's application competence. Knowledge of customer processes, and the end-customers' needs and possibilities, are central to be able to drive development. Meanwhile, Höganäs stimulates innovation and creativity, its new PoP Centre being one example.

Partnerships

Höganäs wants to be the driving-force of the usage of powder metallurgy. This does not mean the Company integrating forwards in the value chain. The Company is seeking interaction with its subcontractors, customers and other parties in the value chain to develop powder metallurgy together. In individual cases, Höganäs may develop prototypes or products in-house, where there are no suitable collaboration partners.

Höganäs also conducts collaboration projects with researchers at universities and higher education institutions, in metallurgy, industrial processes and applications.

Höganäs in the value chain



Welcome to the future! Welcome to the PoP Centre!

Höganäs' new concept "The Power of Powder" is intended to drive development of powder metallurgy. The approach is that anything that can be done with powder, should be done with powder. It is often not only cheaper and more efficient, but also has less environmental impact for Höganäs' customers and the end-user.

To spread this understanding and drive development towards broader application of metal powder, in autumn 2009, Höganäs opened a new development centre, the Power of Powder Centre (PoP Centre), which brings all Höganäs' competences together under one roof to develop future applications alongside customers.

The inauguration was conducted with pomp and circumstance. Some 100 guests from around the world attended the event, extending from component and press tool manufacturers to representatives of different companies that are increasingly using powder components, in the automotive industry, for example. Guests had a guided tour of the different departments in the Centre. System Tear Down was one of the more spectacular, where Höganäs' engineers disassemble different machines and equipment into their constituent parts and examine which components could be made cheaper, better and with less environmental impact using powder. Gearboxes are an example. With a producer of gears, Höganäs has developed three of the gear pairs in powder and installed them in a Smart car that is in daily use.

Another department showcased how Höganäs' soft magnetic composite powders can confer altogether new three-dimensional magnetic characteristics, which can make electric motors smaller and more efficient, for example. There is also sophisticated laser cladding equipment, which can give a metal surface completely new anti-corrosion and wear

characteristics in just a few seconds, with a very high-precision metal powder coating.

The Centre also has equipment for testing new prototypes or finished components, and to analyse strength, magnetic characteristics and material composition. The consistent aim is to bring the future a little closer.

Market

As the boundaries of the powder market are pushed back the competitive picture changes. At present, powder producers mainly compete with other powder producers, but as powder becomes the answer to more problems, companies offering similar functionality, but using completely different technologies and approaches, will also become competitors. Then, powder companies may be competing with the vendors of steel gear-wheels or companies that offer alternative solutions for fuel cells or cleaning agents in industrial filters.

There are two main applications at present - component production in cars, electrical tools and compressors, for example, and consumables for brazing, welding and in the process industry. But the boundaries of the powder market are in the process of shifting. Development work by producers and customers means that new ways of using powder are arising all the time. The common denominator for many of the new applications is achieving lower costs and less environmental impact compared to other available alternatives. Often, this is due to less waste in production and lower volumes of material consumed due to simple design changes.

Components

The expanded market in component manufacture is due to powder being usable in far more parts of an internal combustion engine, for example, especially in the automotive industry. Gear-wheels in gearboxes are the components that still offer the biggest single future market potential.

Powder-based gear-wheels have similar strength to steel components, but are cheaper and lighter. Usually, weight reductions in steel components are achieved by drilling them. With powder technology, apertures are created directly in the press process, which saves time, costs and material.

Metal powder components also exert less environmental impact in the manufacturing process, where during production of the component, nearly 100% of powder is utilised, whereas in machining and casting, there is substantial wastage.

Additionally, there is no need for often environmentally harmful additives like binding agents in casting moulds or coolants during machining.

We estimate the market for powder metallurgy components in 2009 at some 800,000 tons. The long-term historical trend has been market growth of about 2% over and above growth of vehicle production.

Soft magnetic components

Soft magnetic components are heading towards usage in new types of electric motors that can be made smaller, while being more efficient and cheaper.

The automotive industry has high potential demand for small, light and efficient electric motors. In a first phase, mainly for bicycles and scooters, but in the longer term, it may also be possible to use them in cars.

Fuel cells

Another interesting possibility in the automotive industry is to use stainless powder as the basic material for gas diffusion plates in fuel cells. Fuel cells enable electric vehicles to run on hydrogen gas. Intensive development work is ongoing around the world to improve the efficiency and reduce the weight of fuel cells. By using powder in this application, lower production costs are achieved.

Surface coating

Metal powder for surface coating is a growth market. Using PTA or lasers, thin layers of high-strength alloys are created to achieve harder surfaces in a raft of different components. Usage of this technology to extend the useful lives of the moulds used to produce glass containers for the food industry is an example. Powder coatings also work as rust proofing.

Water treatment

Powder has high potential in different types of water treatment, from large-scale projects to clean groundwater in land decontamination, to making drinking water for individual households.

When decontaminating land, powder can be buried in the ground with the groundwater. As the water passes, the powder absorbs many of the heavy metals in the water. One ongoing EU project is currently evaluating the types of powder most suitable for this task.

In some parts of the world, water has been contaminated by nitrates, often caused by artificial fertilizers in agriculture. Traditional methods for removing nitrates are costly, and so there is a high incentive to use iron powder, which is significantly cheaper.

Removing microbes by filtering with other types of metal is another interesting possibility for making water suitable for drinking, a technology that could be used in consumer products for households.

Air treatment

As standards to reduce emissions from vehicles and manufacturing become more stringent, the potential for metal powder to clean air and exhaust grows. Stainless powder is used in applications such as filters for particle cleaning of diesel engine exhaust. This method can also be applied in different types of industrial filter.

Sustainable development for customers and the environment

The debate on sustainable development, which unites economic sustainability with environmentally sustainable production, is gathering momentum. Höganäs matches these challenges by developing products, production and applications with the goal of always offering an effective value chain, all the way from material usage to the customer's application.

New business opportunities

Höganäs sees new needs and business opportunities arising with increasing consciousness and demands for environmental and climate action from the outside world. Metal powder may play an important role in new energy systems, for example, when developing the next generation of electric motors, and distributing renewable energy production like solar and wind power. Specially developed powder can also be used to treat groundwater in contaminated areas, which is especially important in regions where water is scarce.

Development for the environment and the economy

Höganäs' product development is consistently based on the principle of "everything new we do should have less effect on the environment." Accordingly, environment and health considerations are part of decision-making in all process and product development. Proceeding from this, Höganäs has developed and can offer products where nickel, manganese, molybdenum and copper have been replaced with less environmentally harmful alloy elements like chrome or silicon in certain products, for example. Lubricants are normally added to powder mixes to facilitate compression moulding of metal powder. Höganäs has developed the zinc-free material Intralube E, which can often replace previous generations of lubricant.

Processes that save time, material and energy

By choosing to produce components from metal powder, customers can shorten production processes, because fewer steps are needed to achieve a finished product. This makes production faster and less energy-intensive. Metal powder components can be hardened immediately after sintering through a forced cooling process, which shortens the process further because it avoids having a separate hardening stage, with the product being heated up again for hardening. The fact that material wastage can be reduced to virtually zero is additional. Thus the result is often better overall finances through the whole production chain, and finally, for the customer too.

Uniting management of resources with high performance

Höganäs' ambition to optimise the consumption of resources and reduce its environmental impact is based on the continuous development of technology to ensure continued high product performance. The usage of advanced design software to optimise component design is one example. This software's computations enable Höganäs to identify rationalisation opportunities that do not compromise performance, but actually increase it. For example, it calculates a gear-wheel's optimal design, and where to locate apertures to reduce weight and material usage with retained strength. Reducing gear-wheel weight saves kinetic energy, increasing performance when used in a gearbox for example.

Development close to the customer

To ensure continued development of metal powder technology and applications, Höganäs drives its own and sector-wide research in powder metallurgy. Höganäs opened the PoP Centre in the year, a meeting-place to further stimulate innovation and strengthen partnerships with the customer, and the customer's customer. Environmental consideration through conscious material choices, more intelligent applications and process optimisation are important components of development in the PoP platform.

Systematic environmental work

Höganäs takes a long-term approach to reducing the environmental impact of its operations. Good environmental performance enhances Höganäs' offering and is an important competitive advantage. The combination of systematic environmental work with consistent production and reliable decontamination equipment gives Höganäs good prospects of continuously achieving better results in the environmental segment.

Höganäs' Environmental Policy states the overall guidelines of its environmental work and addresses the key questions - energy and CO_2 emissions and efficient consumption of resources including minimising waste. Continuously improving results in the segment are united with cost savings in the short and long term.

All the Group's production facilities are ISO 14001 certified and regularly inspected by third parties. Requirements for continuous improvement of processes, and employee environmental competence, are also important components of environmental work. Höganäs evaluates its suppliers' environmental work and encourages certification of environmental management systems in their operations.

Energy mapping, part of a larger Group project

Environmental issues are largely determined by local rules and conditions, and are managed through local actions. Höganäs took a broader grasp of these issues in 2009 to create greater clarity in its work on environmental and sustainability issues. As part of its work, Höganäs created a Group-wide organisation - the Corporate Competence Centre - to co-ordinate collective guidelines through the Group. A number of major issues were identified in the year like emissions, energy and basic systematics in environmental work. The next step is to find shared, quantifiable key indicators linked to these issues.

One first milestone project was to start up activities in the energy focus segment. Extensive energy mapping was conducted in the Swedish facilities in 2009 to map consumption, identify savings opportunities and improvement potential. Funds have been set aside for the next step, which is to continue mapping through the Group's other facilities. The US is first up in 2010, where Höganäs has its largest facilities outside Sweden.

Investigating new technology to produce iron

Emissions per ton of produced material have reduced gradually since the mid-1980s. Now, emissions are close to what is possible using current technology because iron and steel production is dependent on coal, which causes CO_2 emissions from the process. Höganäs is participating in the IRONMAN project, where it is investigating the technical, environmental and financial possibilities of extracting iron from ore using hydrogen gas and carbon monoxide from natural gas in partnership with LKAB and Statoil. Estimates indicate that CO_2 emissions could be up to 75% lower than in traditional iron production. Find out more on page 13.

Other sector-wide research is being conducted in the Swedish Steel Producers' Association's energy programme, which includes the development of electric arc furnace energy consumption, and how it can be rationalised when producing steel from iron sponge or scrap.

Recycling energy

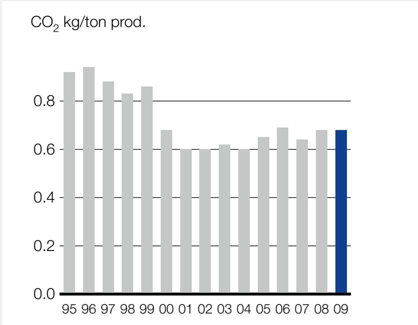
Höganäs has been able to satisfy the heating needs of its Swedish facilities for several decades by utilising excess heat from industrial processes. When excess heat is recycled, it replaces oil and natural gas energy sources, reducing emissions of greenhouse gases.

There is a surplus of excess heat from production, which also supplies Höganäs Fjärrvärme AB with energy. In 2009, Höganäs delivered some 28 GWh of energy, which corresponds to savings of some 8,000 tons of CO_2 emissions. The energy delivered is down on 2008 due to lower production because of the market slowdown that occurred in the first half-year 2009.

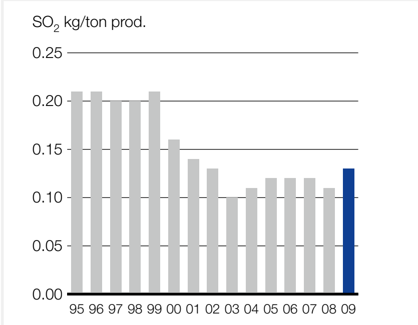
Trading in emission rights

Höganäs' plants at Halmstad and Höganäs, Sweden are covered by the EU trading system for CO_2 emission rights. Some 90% of the Group's total CO_2 emissions are covered by the standards for emission rights. The trading system is based on the gradual reduction in the number of available rights. A deficit of

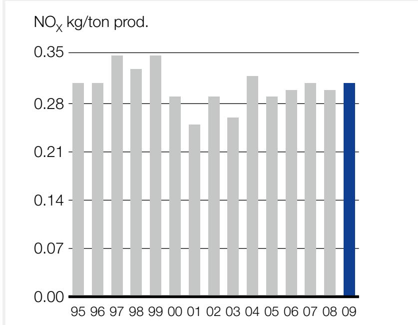
CO_2 emissions per ton produced



SO_2 emissions per ton produced



NO_X emissions per ton produced



REACH in 2009

Since its introduction in 2007, Höganäs has used REACH (Registration, Evaluation and Authorisation of Chemicals) to manage environmentally harmful materials. The Company registered the chemical compounds Höganäs imports to, or produces in, Europe in good time in advance. Höganäs participates in a number of consortia to share the costs and gain access to the information necessary for forthcoming registration processes, which begin in 2010.

Environmental actions in 2009

The year featured a number of major investments that give the operation at Niagara Falls the prospects of improving its environmental performance further.

- New reduction furnace at Niagara Falls provides energy savings and reduces the need for hydrogen gas.
- Installation of a new filter for more effective dust cleaning from three hydrogen reduction furnaces at Niagara Falls.
- New cyclone installed in the smoke gas cleaning at Halmstad to increase availability and prepare for increased production.
- Installation of frequency inverters in fan motors at Höganäs' sponge works provides energy savings.
- Installation of purification equipment at Stony Creek to capture and separate dust in the mixing station.

rights in the trading system drives CO_2 rationalisation where it is cheapest to achieve, and where all participants contribute to the cost of these rationalisations.

In 2008-2012, energy-intensive sectors will be granted emission rights freely based on historical data and forecast needs. Höganäs judges its granting in 2008-2012 as sufficient. In 2009, Höganäs sold emission rights for a value of MSEK 40. New rules will change the conditions for the next trading period from 2013 onwards. Höganäs works through the European sector organisation EUROFER to create conditions in the trading system that mitigate the effect of increasing costs of emission rights. Otherwise, there is a risk that as long as the trading system only covers the EU, companies like Höganäs that compete on a global market are disadvantaged by the system.

Utilisation of resources

Höganäs can reduce its environmental impact by utilising resources effectively. Some two-thirds of input materials are recycled iron scrap. So it can supply the market with products with the characteristics and quality customers demand, pure iron ore, which makes up the remainder, is also necessary.

North American Höganäs' Niagara Falls plant is an example of efficient iron powder production. This plant is centrally located close to several major buyers of the products it manufactures, creating short distribution links. The iron powder is produced in electrically heated reduction furnaces, which use hydrogen gas as a reducing agent. The raw material used in powder production is oxide scale, a residual product from local rolling mills. The hydrogen gas is delivered as a residual product from nearby chlorine production. The only residual product from iron reduction at the Niagara Falls facility is water. This water is treated before it is finally discharged to the Niagara River. In turn, the Niagara River provides operations with the electricity it needs, some 5 MW of hydropower. Despite these positive conditions, Höganäs is endeavouring to rationalise further. All the hydrogen that is not converted in furnace processes is captured and returned to the process through a hydrogen to hydrogen heat exchanger and unique capture system. A new, state-of-the-art hydrogen reduction furnace was installed and commissioned in 2009, replacing older process equipment. This investment has enabled a 25% electricity and hydrogen saving.

Research is being conducted by the Swedish Steel Producers' Association to rationalise the consumption of resources. Höganäs is following a project intended to utilise and recycle slag, a residual product from smelting iron, as a raw material for construction.

Conditions for operations

The production of metal powder requires permits in all countries where Höganäs conducts manufacture. They 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.

Essentially, Höganäs complies with all the relevant terms. In the year, Höganäs conducted a technical investigation, whose results will be submitted to the regulator in early-2010, with proposals for some improvement measures.

An in-depth study into the incidence of potential land contamination is being conducted at the Swedish facilities. The first audit report has been submitted to the regulator. A provisional plan for continued monitoring at Höganäs properties was prepared, and was largely approved. No demands for decontamination or other measures against land contamination were levied against the Company as a consequence.

Raw iron that satisfies future climate change standards

This is an excellent example of Höganäs' ambition to create value-added through partnership, and clearly demonstrates that environmental and cost efficiency can go hand in hand. This may be why the project has got such a high-impact name: IRONMAN. The expected results are almost too good to be true - a raw iron enabling steel to be produced with 75% less CO_2 emissions.

Höganäs' raw materials for producing metal powder are iron scrap and iron ore. Scrap has less environmental impact, but has become scarce. Because Höganäs wanted to ensure access to raw materials, while also helping create a better environment, in 2008, it started a project called IRONMAN.

This project is intended to examine the conditions for building a facility for the direct reduction of iron ore pellets outside Trondheim in Norway. Direct reduced iron is obtained when oxygen is removed from iron ore using natural gas instead of coal as in a traditional blast furnace process.

Cross-border collaboration

The members of the project are LKAB, Statoil and Höganäs. LKAB brings its skills in iron production and iron ore pellets, Statoil has knowledge of energy generation and gas refinement. Höganäs is contributing competence in the usage and sale of metal products.

Climate change in focus

The aim is for the plant to be able to produce the world's most climate-friendly iron. The basic technology has been known for some time, but because it requires access to iron ore and natural gas within a reasonable distance, there are only a few parts of the world that are suitable. Such regions are mainly in parts of the world where environmental considerations have not had the same focus as in Europe. The new IRONMAN plant, with its intended location outside Trondheim, would be the only one that could offer European steelworks products manufactured locally in Europe, and would be built with the express intention of maximising climate neutrality.

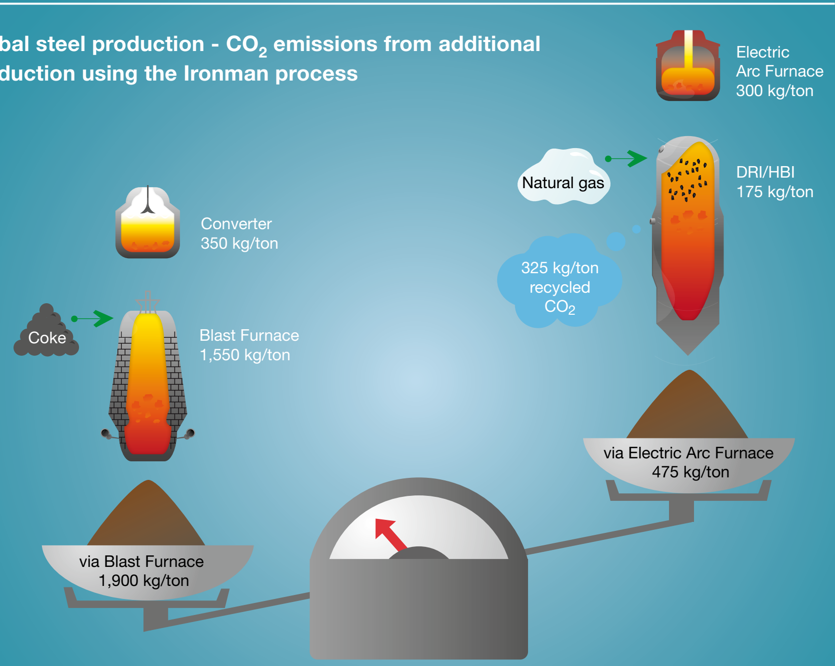
Existing infrastructure

Another advantage of this project is that it is intended to utilise existing infrastructure. LKAB already transports much of its iron ore through a rail-link to Narvik harbour. From this point, IRONMAN's needs could be satisfied by sea to the new plant at Trondheim, which is adjacent to Statoil's existing facility, where the North Sea natural gas pipeline ends.

Feasibility studies and analysis were conducted in 2009. Construction could start in 2011, with production coming on stream by late-2013 at the earliest. At capacity, the plant would be able to produce some 1.6 million tons of iron, corresponding to some 15% of the European steel industry's needs for this type of pure raw material.

Thus, Project IRONMAN would make a substantial contribution to the work on reducing climate change. By extending the usage of production technology that can utilise direct reduced iron as a raw material at the expense of conventional blast furnace technology, total CO_2 emissions could be cut by up to 75%.

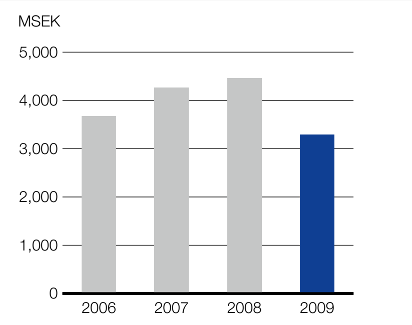
Global steel production - CO_2 emissions from additional production using the Ironman process



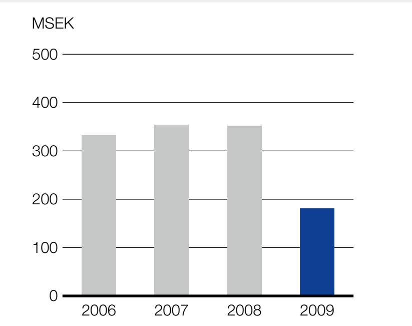
Components

The Components business area produces and sells metal powder for producing mechanical and electrical components. Iron and metal powder with a range of alloys are marketed to component producers in the powder metallurgy (PM) industry. Höganäs has also intensified its marketing of powder technology to end-customers. By highlighting the benefits of metal powder, Höganäs is working to push back the limits of powder metallurgy.

Turnover



Operating income



Mechanical and electrical components produced from metal powder are delivered to product and system producers or directly to OEMs (Original Equipment Manufacturers). The automotive industry, which generates some 70% of business area turnover, is the largest customer group. Nowadays, many transmission components in cars are made of powder. Höganäs works actively with customers and partners to highlight the benefits of powder - lower weight, better material yields and lower cost - to extend the market of sinter components.

Saving costs and the environment

Sinter components offer a range of benefits. There is less need for post-processing like milling and grinding than forged or cast components, conferring lower costs of energy and labour. Sinter components also offer better material yields through lower wastage. Additionally, finished components also achieve lower weight in a simple way.

Accordingly, metal powder offers lower cost and environmental savings over traditional materials.

Developing production processes

The achievement of these benefits by component producers sets challenging demands on powder producers. Metal powder must maintain consistent quality to ensure even filling of press tools, and consistent quality of finished products. Even filling is crucial for components to attain homogeneous characteristics.

Höganäs is the world's leading producer of metal powders and can deliver metal powder with extremely consistent quality. Through its long-term experience and substantial size, Höganäs has also accumulated unique know-how in mixing techniques. Accordingly, its product development work also includes developing new lubricants and mixing techniques, such as techniques for faster compacting. The consistent aim is to increase customer value through cheaper production processes, better material yields, etc.

The automotive industry - a major customer group…

The automotive industry is a major customer group, driving product development across many supplier segments. It is also a leader in using sintered components. Its driver is to cut production costs through better material yields and more efficient production processes.

By sinter components being lighter than steel or cast iron equivalents, vehicles become lighter and thus more fuel-efficient, which enables the realisation of benefits for car consumers and the environment.

Metal powder is now mainly used for transmission components, such as gears, synchromesh clutch hubs and gearbox rings, for valve controls in engines, shock absorbers and brakes, etc.

...with substantial development potential

Progress in the automotive industry was sharply negative in the year, although Höganäs partly offset this by extending the usage of metal powders. Höganäs has been running one high-potential development project in Brazil in partnership with GKN Sinter metals on synchromesh clutch hubs in gearboxes for GM Brazil. By using Höganäs' new mix, Intralube E,

production costs were cut, while reducing environmental impact because this powder contains no zinc. Higher quality has also reduced scrapping.

The PoP Centre - a smart way to demonstrate the potential of powder components

The new PoP Centre in Höganäs was inaugurated in autumn 2009, with the aim of driving development in powder applications and showcasing "The Power of Powder." The centre disassembled a Smart car to show how many components are now made of powder, and the scale of potential savings in production costs and fuel-efficiency by using more powder components.

Stronger positioning in 2009

Höganäs launched a new mix concept branded Intralube E in 2009. This mix contains a new lubricant that rationalises the customer's processes and improves components. Find out more about how Porite of Taiwan scored major successes thanks to Intralube E on page 17.

Höganäs also achieved success in soft magnetic composites (SMC). Microgen of the UK developed a sterling generator, which thanks to this product's characteristics, could be tailored for installation inside a boiler that generates electricity for free. Find out more on page 16.

Hitachi also increased its usage of SMC in its new electric motors.

Sales and earnings in 2009

Net sales in 2009 were MSEK 3,292 (4,465) down 26% year on year. Price increases and currency effects had a positive impact on net sales, while sales volumes were down by 25%.

Inventory levels were high worldwide early in the year, right through the value chain. Customers were focusing on cash flow, cost-cutting and de-stocking measures. The demand situation gradually improved from March onwards, driven by factors including a range of stimulus packages and scrapping premiums on cars in Europe and the US, and tax easings on consumer goods in Asia.

The recovery continued gradually through the year, and in the fourth quarter, volumes were up +35% year on year. The recovery arrived earliest and was most apparent in Asia, where sales are less dependent on car production.

Some recovery was visible in Europe in the year, while progress was weakest in North America, although some rally was also evident here late in the year.

Operating income was MSEK 181 (352) and operating margin was 5.5% (7.9). The business area posted losses in the first half-year due to lower sales volumes and weak absorption of fixed costs. Income improved in the second half-year due to higher volumes and the effect of higher pricing and cost savings implemented.

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

Production sites
Höganäs, Sweden
Ath, Belgium
Tonbridge, UK
Stony Creek, US
Niagara Falls, US
Johnstown, US
Mogi das Cruzes, Brazil
Ahmednagar, India
Shanghai, China
Saitama, Japan

Business area key indicators

MSEK	2009	2008
Net sales	3,292	4,465
Operating income	181	352
Operating margin, %	5.5	7.9
Assets	3,524	3,818
Investments	193	249

Cooling + heating = free electricity

When heat encounters cold, energy is created that can be utilised to generate electricity. This is established fact. But few people could envisage how this technology might be used to extract electrical current from a common boiler. Höganäs' engineers were some of few that could, however, and supported Microgen of the UK to do just this, thus enabling millions of European homes to get 1,000 W of free electricity.

In most European countries, many homes have a gas-fuelled water boiler. Cold water comes into one side of the boiler, is heated by a gas flame before passing from the system, from a tap, shower or radiators for heating.

The Stirling generator

A Stirling generator produces electricity by utilising the different pressures that arise at different temperatures to raise and lower a cylinder. In principle, heat could come from any source, such as gas, pellets, a woodstove or solar panels. The same principle is used to build engines, called Stirling engines.

One advantage of sterling generators is that they operate linearly, i.e. up and down instead of with a rotating piston. This provides quieter and more even running, and also reduces wear, and thus the need for maintenance. They also have far fewer components because no rotating parts are required, nor connecting rods.

Accordingly, they are especially suitable for installation in a boiler, which is in ordinary homes, must not be noisy, and cannot require unnecessary maintenance. Microgen Engine had understood this for some time, and had tried to produce generators traditionally, with lathed steel components and sheet laminates. But this proved costly and the generators did not always achieve the necessary precision. The quality was not high enough.

Using powder instead

At this point, they started to think about using powder metallurgy instead and contacted Höganäs.

"Thanks to our soft magnetic composite powder and related knowledge, we could support them in creating a powder-based generator. We were involved in the development process, and did things like the electromechanical computations," says Lars Hultman, who manages the SMC powder segment at Höganäs.

Using powder enables smaller and better generators to be manufactured, production costs are lower and production precision is far better, i.e. all the components are identical with exactly the same characteristics. They also have better electromechanical characteristics, so more power is produced.

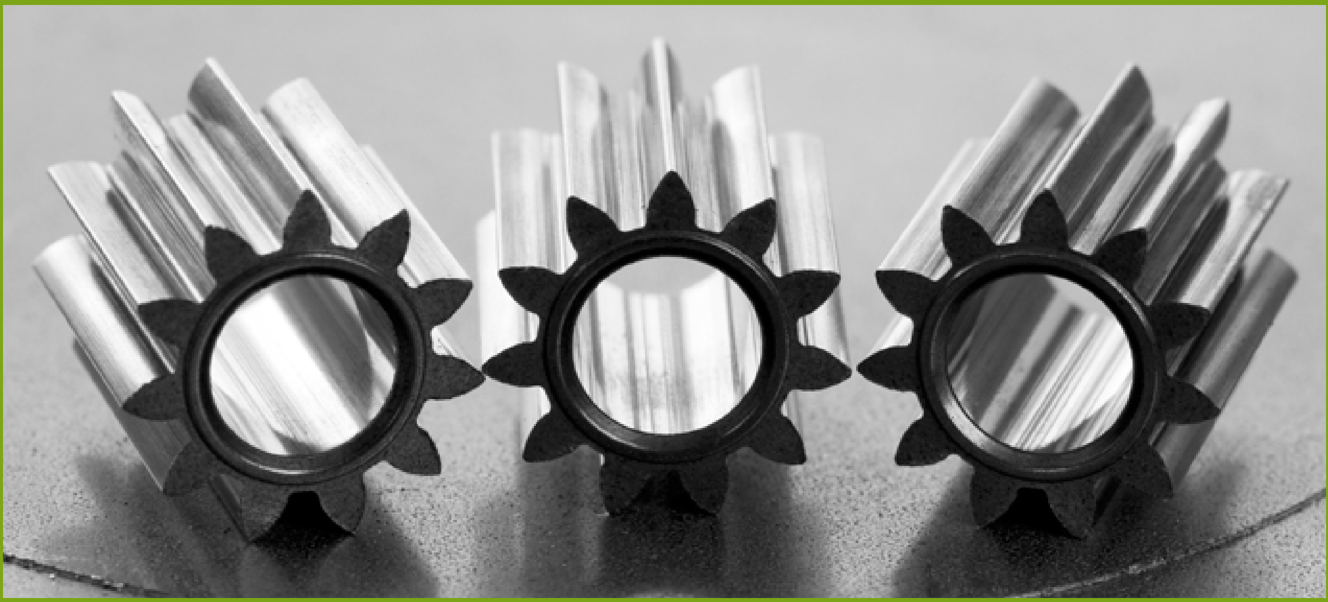
Every home is a power producer

Now that the boilers with Microgen's generators are in commercial launch, consumers will be able to extract approximately 1,000 W from them. They can either feed this into their own wiring and get free electricity or transmit it to the grid and get paid.

"This is a fantastic example of what can be achieved with our SMC powder. What's more, this generator can be used in a similar way in solar panels, biogas plants and emergency generators, as in trucks when they're parked at night. And using similar technology, you could easily make Stirling engines to cool chiller boxes," concludes Lars Hultman.

800,000 components get more attractive, cheaper and better

Porite of Taiwan operates one of the world's largest plants for powder metallurgy component production. It is also the first customer to try Höganäs' Intralube E mixes on a large scale. The results from the first components were so good that the company is already considering switching to Intralube E on other components.



In 2009, Höganäs launched a new, improved lubricant, sold in mixes branded Intralube E. The mix contains a new lubricant, which rationalises the customer's process and improves components. Press tool wear is reduced, and less energy is required. Components have a superior spotless surface after sintering thanks to a specially formulated organic additive. Green strength - strength after pressing but before sintering - is also improved, which has advantages including reducing the risk of defects.

Intralube E mixes also enable pressing with warm pads. This means that the press tool is heated to a moderate temperature where the lubricant works optimally and the heat energy increases the pressability of the metal powder. This results in greater density, and thus greater strength than traditional pressing.

Another benefit of Intralube E is that it does not contain zinc, which reduces the need for maintenance in sintering furnaces and eliminates the emission of zinc, a heavy metal, from furnace exhaust.

Intralube E has achieved good sales since launch in January 2009, primarily in Asia. The first customer to try Intralube E on a commercial scale was Taiwanese company Porite, which produces components for customers including Bosch, BMW, Mercedes-Benz, GM, Ford, Chrysler and Volvo at one of the world's largest powder metallurgy plants.

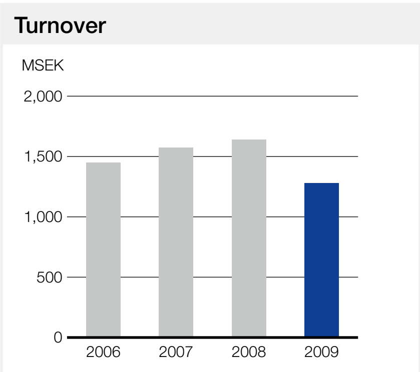
An oil pump part for the automotive industry with annual production of 800,000 units was one of the first products Porite changed to Intralube E.

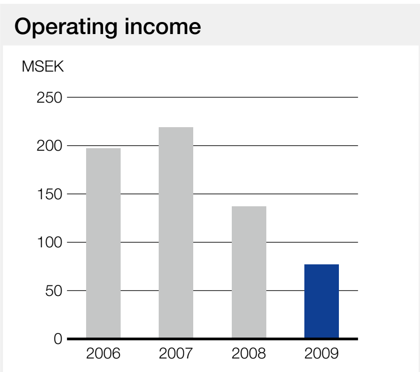
"Intralube E has brought Porite several benefits. The surface of components is so good that post-processing costs for sandblasting have been minimised. Components also have high density without warm compacting, reducing materials, energy and production costs."

"Porite takes a very positive view of Intralube E and is considering the possibility of switching to Intralube E mixes on other components, both existing and new components in development," reports Leo Fan of Höganäs in Taiwan.

Consumables

The Consumables business area produces and sells metal and high-alloy powder mainly used in processes, for surface coating, welding and brazing, for example. Höganäs delivers powder to producers of welding material and users of brazing and surface-coating technologies, and food producers. Filters for purifying water and exhaust are another application of metal powder.





With its size, geometry and appearance, metal powder has unique characteristics suiting it to a raft of different applications. It is possible, for example, to surface coat other metals, conferring them with new characteristics cost-efficiently. Brazing high-temperature heat exchangers is another example where the flow characteristics of powder can be used to apply the powder in the right places. The high surface area of metal powder in relation to volume also makes it suitable for cleaning and iron supplements. New applications are appearing constantly.

Höganäs primarily delivers metal powder to OEMs, but also to their suppliers.

Resistance enhanced with surface coating

Different types of surface coating, where the hardness, anti-corrosive and high-temperature qualities of metal powder are ideal are a growth segment. The useful lives of components exposed to heavy wear can also be extended by surface coating with alloys.

Laser cladding opens up new opportunities and markets. One example is Roussakis of Greece, which repaired an 11 m long, 26 ton axle in a ship engine effectively. Cracks and wear in the axle were filled with Höganäs' Surfit™ stainless powder. Laser cladding enabled the axle to be coated effectively, restoring it to its original condition. This marks a breakthrough for increased metal powder usage.

Welding and brazing - major applications

Welding is one of the major applications of metal powder. Iron powder in welding electrodes improves welding characteristics and quality. This improves productivity for the customer, thus reducing production costs and improving profitability. Demand for welding electrodes and welding powder are heavily dependent on investments and expanding infrastructure. Accordingly, Asia, with its high economic growth rates, is an important market for Höganäs.

Powder for high-temperature brazing is another priority segment. In the year, Höganäs developed a new powder, Brazelet® F300, which is a cost-efficient solution for customers compared to competitors' products.

A cleaner environment from purification with metal powder

A greater need to protect the environment through reduced emissions and cleaner exhaust is an important driver for greater usage of metal powder.

Metal powder is used for filtering and cleaning emissions in the textile industry, for example. In the textile industry, filters are used for producing polyesters and polyamide fibres. Purifying water is also becoming more important. Iron powder enables contaminated water to be treated effectively.

Deficiencies can be relieved with iron powder supplements

Iron deficiency is one of the most common deficiencies in the world, in industrialised and developing countries. The most common cause is iron-deficient

food, which can be compensated through food supplements and additives.

Höganäs works actively on developing the usage of iron supplements in food, thus helping contribute to better health. Powder is also used in cereals, flour and pasta.

Stronger positioning in 2009

Höganäs strengthened its positioning in this segment in 2009, primarily through more participation at trade events to showcase its product development work and by creating a webshop for selling surface coating materials. A range of handbooks were also produced, for marketing various production techniques.

Sales and earnings in 2009

Net sales for the full year were MSEK 1,279 (1,638), down 22% on 2008.

Price increases and currency effects had a positive effect on turnover, while volume contraction of 17% and lower prices of alloy metals had a negative effect.

Continued stable market progress for oxygen absorbing products and carrier cores (for printer toners) plus seasonally high sales of hot bags meant that sales volumes continued to rise in Asia. Sales of welding powder levelled off on some markets in the fourth quarter. Demand from the shipbuilding industry reduced and customers reduced their inventories.

Fluctuations in sales volumes in Europe were marginal between quarters. All segments apart from welding powder were very negatively affected by the weak manufacturing cycle.

South America made a continuous improvement from quarter to quarter. In the fourth quarter, activity levels from customers with export-driven sales were consistent with the corresponding period of the previous year, although still down substantially on 2007. In North America, volumes were somewhat weaker in the fourth quarter than the third due to lower activity late in the year from buyers of powder for friction products. But thanks to increased market shares in new segments, Höganäs' sales for the full year were down only marginally on 2008.

Operating income for the full year was MSEK 77 (137) and operating margin was 6.0% (8.4). In Consumables too, lower sales volumes were the primary cause of the reduced earnings.

Earnings from metal hedges were lower than in the full year 2008. Rising prices of nickel and copper in the second and third quarters resulted in losses being realised on forward contracts, while inventory gains were made. In the first half-year, Höganäs implemented cost-savings by modifying production to lower demand levels. Thus, the combination of a sustained focus on cost control with rising sales volumes resulted in a notable increase in margins in the second half-year.

Consumables

Market segment
Surface coatings
Friction materials
Filtration
Welding and brazing
Food and animal feed supplements

Applications
Hot bags
Coating of rollers
Brazing heat exchangers
Food supplements

Production sites
Höganäs, Sweden
Halmstad, Sweden
Ath, Belgium
Tonbridge, UK
Stony Creek, US
Niagara Falls, US
Johnstown, US
Mogi das Cruzes, Brazil
Ahmednagar, India
Shanghai, China
Saitama, Japan

Business area key indicators

MSEK	2009	2008
Net sales	1,279	1,638
Operating income	77	137
Operating margin, %	6.0	8.4
Assets	1,483	1,620
Investments	72	129

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 their 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 risk of production downtime. Höganäs also has property and consequential loss cover.

Purchasing risks include delivery fulfilment, quality and prices of strategic 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 takes credit insurance to alleviate the risk of bad debt in US customers and export letters of credit for sales in some Asian markets. Credit checks are always run on new customers before sales. Receivable balances are 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. Questions are also processed 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, as well as disputes with suppliers, customers and other external parties, which may involve large amounts. Legal disputes are managed by Höganäs' legal counsel 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 works actively to secure patent protection on technical innovations and processes developed by the Group, and monitors that patents are being complied with.

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 overcapacity. Through its strategy of being the technical, product and commercial leader in metal powder, Höganäs intends to retain and advance its positioning against 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 on the Group's earnings of fluctuations in raw material prices and exchange rates. 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 managing all price risks that can be managed using derivatives, i.e. currencies, interest rates, certain raw materials and energy. The Board has 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. 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 perception 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 denominated 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 the raw material is included in is determined in 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 marketplaces, meaning that the cost of achieving effective price hedging on long-term contracts would be unreasonably high. In 2009, 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 cash flow 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 225 at year-end, were arranged with a syndicate of four banks in 2005 and mature in June 2010. The share of this facility drawn down at year-end and remaining volumes for other short-term credits are reported in Note 31.

In autumn 2009, Höganäs arranged a new MEUR 175 facility with a group of four banks. This facility runs for three years with maturity in spring 2013. Early in 2010, Höganäs also signed a MEUR 50 agreement with Svensk Exportkredit (SEK) with a short maturity.

Interest swaps are used to manage interest risk. Höganäs' Finance Policy states that the basic strategy involves 40% of interest-bearing liabilities having an interest fixing period of over 1 year. The permitted divergence 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 2010. 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 shareholders' 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 on purchase and sale of metals

Metal	Price and exchange rate change [1]	Earnings effect from exposure, MSEK [2]
Copper	+10%	1
Nickel	+10%	7
Molybdenum	+10%	1
Scrap	+10%	-4

Currency risk in refining process

Currency	Exchange rate change [3]	Earnings effect from exposure, MSEK
USD/SEK	+10%	64
EUR/SEK	+10%	80
JPY/SEK	+10%	18
Other	+10%	13

Energy prices

Energy type	Price and exchange rate change [4]	Earnings effect from exposure, MSEK
Electricity	+10%	-19
Oil/gas	+10%	-11

Interest risk including swaps (MSEK)

Loan volume	Interest rate change [5]	Earnings effect one-year horizon	Earnings effect two-year horizon	Earnings effect three-year horizon
1,279	+1%	-5	-7	-9

[1] Price volatility in 2009 was approx. 20% for copper, 35% for nickel and approx. 45% for molybdenum and scrap.
[2] Only a small share of annual volumes are exposed at any time.
[3] Exchange rate volatility for the above currencies varied between 8 and 12% in 2009.
[4] Price volatility in 2009 was approx. 35% for electricity and 25% for oil/gas.
[5] Interest changes in 2009 on Höganäs' borrowing currencies were a maximum of 2.3 percentage points.

Human resources

Höganäs' operations extend over four continents. This means that there are many different cultural backgrounds represented in the Company. Höganäs benefits from this diversity by exchanging knowledge and experience within the Group. At year-end 2009, the Company had 1,456 (1,524) employees at 19 sites in 14 countries, 15% (15) of them being women and 34% (31) were graduates.

Dialogue during operational changes

When the market turned down dramatically in autumn 2008, Höganäs reacted quickly to the changed conditions. The organisation had already completed the majority of total staff reductions of 160 employees around year-end 2008. But further measures like lay-offs, reduced working-hours and extended vacation stoppages affected operations throughout 2009. All parts of the Group were affected, albeit to differing degrees. The largest-scale measures were in Sweden, the US and Belgium. Savings measures implemented demanded a high degree of flexibility and training when duties transferred from one employee to another. Höganäs can now conclude that the process went very smoothly, with a mature and responsible dialogue with employees and their organisations. This was demonstrated notably by the organisation succeeding to cope with increased demand during the latter part of the year without serious disruptions.

Competence development

To retain its competitiveness as a high-technology player, Höganäs has to work continually on developing its organisation and people. Höganäs Business Academy is an example of Höganäs' competence development initiatives.

Höganäs Business Academy

The purpose of this training is to give people a better insight and understanding of Höganäs' strategic goals and to stimulate the dialogue and discussion between people from different segments. The regular themes of training are:

- Höganäs' strategy and fundamental values
- Goals and tactical considerations
- Review of the available 'tool box' i.e. support systems, routines and principles for doing work.
- Business fundamentals like capacity utilisation, capital tied-up and cash flow.

Going forward, "The Power of Powder" will also be a component of the strategy of pushing back the limits of powder metallurgy.

Performance Management

In 2009, Höganäs worked on updating and securing support for its HR policies, based on the standards set by regional organisations. The aim is for all managers within the organisation to have a clear perception of Höganäs' fundamental requirements of the management role in terms of developing the organisation and people, and supplying execution tools. Good performance should be identified and rewarded. Everyone's developmental potential should be identified, utilised and developed based on individual circumstances. The consistent objective is for Höganäs to be able to hire and retain valuable competence.

Employee satisfaction survey

Höganäs conducts a Group-wide employee satisfaction survey every other year, dealing with issues such as work leadership, working conditions and the working environment.

The latest satisfaction survey shows that Höganäs' staff consistently have a good perception of their role in the organisation, and perceive that they have good prospects for performing their duties.

Internal communication was also identified as an area of improvement, which triggered a series of activities at Group level and in Höganäs' regions.

A new satisfaction survey will be conducted early in 2010. Considering the extensive changes to human and organisational resources over the past year, its effects will be closely monitored and actioned where necessary.

Code of Conduct

Since 2007, Höganäs' Code of Conduct has formalised the principles for how each and every one in the Group should conduct themselves in relations with its business partners, shareholders, employees and wider society. It includes:

- Business ethics, such as business relationships, financial reporting and political affiliation.
- Social and human rights, focusing on equality and equal rights for employees as well as the working environment.
- Environment, focusing on sustainable development.

All employees are covered by the Code. Höganäs managers have a special responsibility for observing the Code and keeping employees informed about its content and spirit. The rights, obligations and expected conduct of the employer and the employee towards external parties is on the agenda continuously in many different contexts throughout the Group, in management training, inducting new employees, etc. The complete Code of Conduct is uploaded at www.hoganas.com.

The share

The Höganäs share is quoted on NASDAQ OMX Stockholm Exchange's Mid Cap List. The share is a constituent of the Metals & Mining sector index.

The closing price of Höganäs' class B share in 2009 was SEK 164 (70), equivalent to market capitalisation of MSEK 5,595 (2,457). The share price rose by 134% in 2009, against the Mid Cap Index which rose by 46%, while the Metals & Mining index rose by 147%. OMX Stockholm index rose by 47% in 2009. The Höganäs class B share set a high in the year of SEK 167 on 29 December and a low of SEK 67 on 14 January.

Share capital

Höganäs' share capital is SEK 175,494,660, divided between 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, it is now possible to trade shares on new marketplaces like Burgundy, Chi-X, Turquoise, etc.

The Höganäs share is listed on Nasdaq OMX Stockholm, and trading on the Stockholm Stock Exchange represented over 91% of total turnover of the share in 2009. A total of 12.67 million (27.17) shares were traded in 26,731 (54,478) transactions, equivalent to a rate of turnover of 37% (77). The rate of turnover for the Stockholm Stock Exchange fell to 119% (152), and for the Mid Cap list, fell to 65% (66).

Share buy-backs

Höganäs did not re-purchase any shares in 2009. Höganäs' holdings of treasury shares were unchanged at 293,800 class B shares at year-end 2009, or 0.8% of the total number of class B shares.

Ownership

At year-end 2009, Höganäs had 7,469 (7,360) shareholders, up 1.5% on year-end 2008. The three largest shareholders in terms of capital were Lindéngruppen AB, AB Industrivärden and Didner & Gerge aktiefond (equity mutual fund) with a total of 53.9% of the votes and 41.8% of the capital.

82.4% (81.6) of Höganäs AB's share capital is held by Swedish investors and 17.6% (18.4) by foreign investors. The largest foreign ownership is in the UK and US with 8.8% and 3.2% of the capital respectively. 30.4% (33.4) of Swedish-held Höganäs shares are held by institutions, 22.4% (18.3) by mutual funds and 29.6% (29.9) by private individuals.

Swedish institutions increasing their holdings include Lannebo Fonder, which is now the sixth largest shareholder and SHB Fonder, now the eighth, and new among the ten largest shareholders. The Norwegian Government is a completely new shareholder, new among the ten largest shareholders, and with 1.3% of the capital, is the ninth largest shareholder.

Dividend

The Board of Directors' intention is to maintain annual dividend levels of some 30-50% of net income. Dividends should reflect Höganäs' profit levels, outlook for the future, cash flow and investment need and other relevant factors. Höganäs endeavours to maintain fairly even growth of dividends.

For the financial year 2009, the Board of Directors proposes a dividend of SEK 3.00, equivalent to a dividend yield of 1.8% 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%.

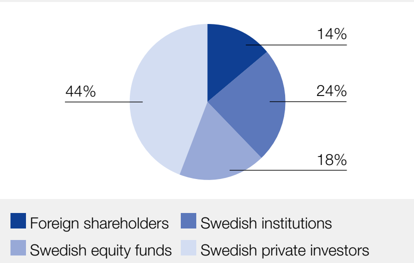
History of the share

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 Stockholm Stock Exchange in April 1994 and now trades on the Mid Cap list. Lindéngruppen AB remains the Company's largest shareholder.

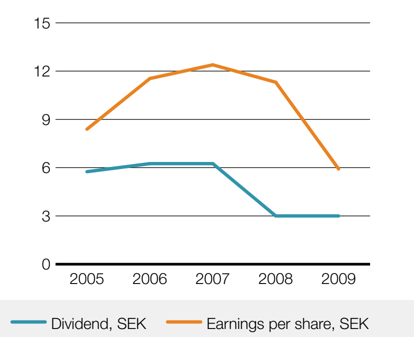
Investor relations

Höganäs held a large number of meetings with representatives of financial institutions in Höganäs, Stockholm and London in 2009. Höganäs arranges regular presentations and investor meetings when publishing its interim and year-end reports.

Type of shareholder



Earnings per share and dividends



Largest shareholders

Shareholders	30 Dec. 2009	% of votes*	% of capital
Lindéngruppen AB	7,650,000	37.8	21.8
AB Industrivärden	3,550,000	8.1	10.1
Didner & Gerge aktiefond	3,475,000	8.0	9.9
Marathon Asset Management	2,775,172	6.4	7.9
If Skadeförsäkring AB	2,627,824	6.0	7.5
Lannebo fonder	2,320,335	5.3	6.6
Alecta	2,210,500	5.1	6.3
SHB fonder	1,042,962	2.4	3.0
Norwegian Government	473,363	1.1	1.3
Fourth AP (Pension Insurance) Fund	415,777	1.0	1.2

*Höganäs re-purchased 293,800 shares that are not included in the percentage of votes stated.

Key indicators

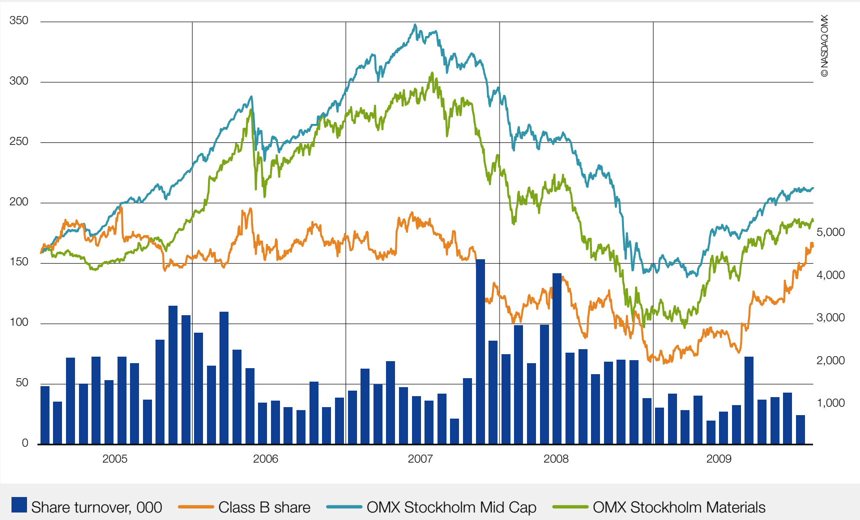
	2005	2006	2007	2008	2009
Earnings per share, SEK*	8.39	11.54	12.39	11.31	5.92
Cash flow after investment per share, SEK*	5.50	12.30	9.00	6.30	18.00
Shareholders' equity per share, SEK*	73.30	75.40	79.50	69.10	76.20
Dividend per share, SEK**	5.75	6.25	6.25	3.00	3.00
Year-end share price, SEK	172.00	179.50	136.75	70.00	164.00
Dividend yield, %***	3.3	3.5	4.6	4.3	1.8

* Pursuant to definition on page 89.
** Board's proposal for 2009.
*** Dividend as a percentage of year-end share price.

Financial analysts monitoring the Höganäs share

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

Share price and turnover vs. index



Corporate Governance Report 2009

Höganäs applies the Swedish Code of Corporate Governance ("the Code"), and accordingly, hereby submits the Corporate Governance Report for 2009. The Report has not been reviewed by the Company's Auditors.

Höganäs' corporate governance bodies

Höganäs is a Swedish public limited company. Höganäs' shareholders ultimately take decisions on the Group's control 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 control in the year and that this control complies with laws and other external and internal control instruments. The following model reviews how corporate governance is organised in Höganäs.

Shareholders

On 30 December 2009, Höganäs had 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.

At year-end 2009, Swedish private investors held 29.6% of the capital and 44.1% of the votes, directly or indirectly via companies. Foreign ownership was 17.6% of the share capital and 14.1% of the vote at year-end. For more information on the Höganäs share, see page 24.

AGM

Höganäs' AGM (Annual General Meeting) 2009 was held on 27 April in Höganäs, Sweden. All Board members attended the Meeting. Of the Company's large shareholders, Lindéngruppen AB, AB Industrivärden, If Skadeförsäkring AB, Alecta, SEB, Lannebo Fonder, Swedbank Robur Fonder and Unionen were represented at the Meeting.

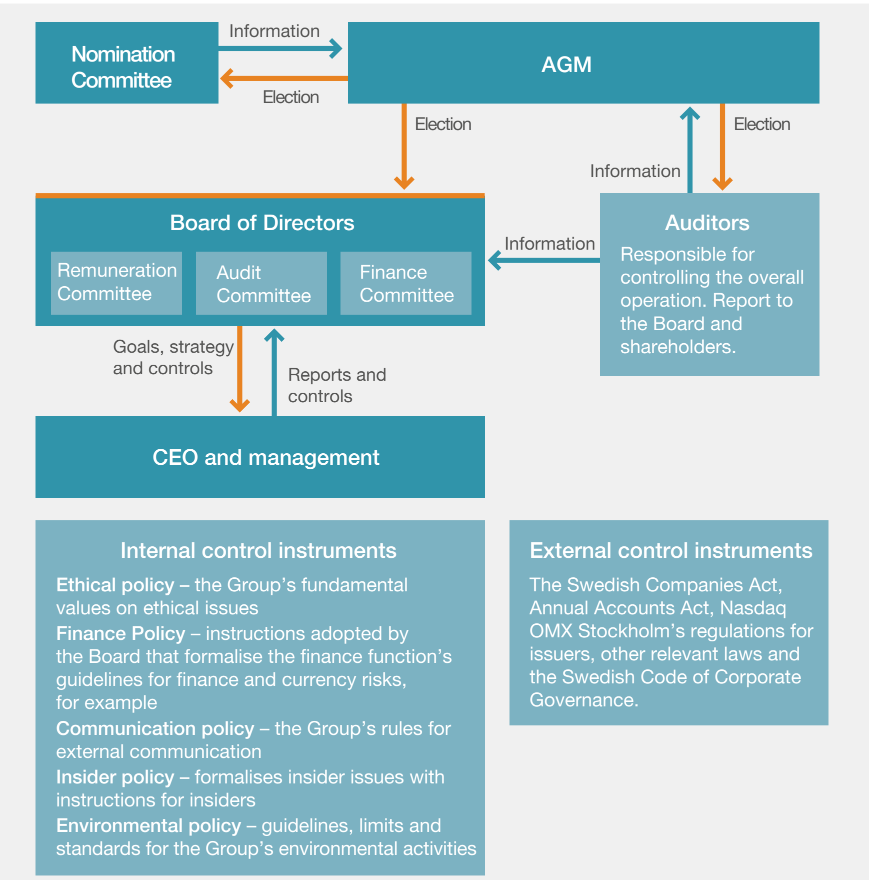
Höganäs conducts its AGM in Swedish. English-language documentation from the Meeting is available on order from the Company's head office and from the Company's website. All documentation from the AGM is available at Höganäs' website www.hoganas.com.

A number of the most important resolutions of the AGM 2009 are reviewed below.

Election of the Board of Directors and Chairman of the Board

Of the members of the previous Board of Directors, the chairman, Per Molin, and Oystein Krogen, declined re-election. Anders G Carlberg and Erik Urnes were elected as new members of the Board.

Höganäs' corporate governance bodies



Höganäs is a Swedish public limited company. Höganäs' shareholders ultimately take decisions on the Group's control 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 control instruments on a continuous basis in the year. The model reviews how corporate governance is organised in Höganäs.

Alrik Danielson, Jenny Lindén Urnes, Bernt Magnusson, Bengt Kjell, Peter Gossas and Urban Jansson were re-elected. Anders G Carlberg was elected as new Chairman of the Board.

Departing Chairman Per Molin was thanked for his many years' meritorious service on the Company's Board.

Board and Auditors' 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 Company and SEK 300,000 for committee work. Remuneration to the Auditors will be payable according to open account.

Performance-related staff stock option plan
The AGM approved a performance-related staff stock option plan for some 50 key staff. The plan is based on the same principles as approved by the AGMs 2007 and 2008 as parts of a three-year plan covering the years 2007-2009.

This proposal is stated in full on the minutes of the Meeting at www.hoganas.com.

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 dividend of SEK 3.00 per share. The reduction from SEK 6.25 reflected increased caution in the light of the recession and Höganäs' continued stable financial position.

Other
The AGM adopted principles of appointing a Nomination Committee ahead of the AGM 2010, which essentially correspond to the principles applying since the AGM 2005.

Nomination Committee

Pursuant to a resolution at the AGM 2009, Höganäs' Nomination Committee for the AGM 2010 will consist of representatives of the four largest shareholders in terms of the vote on 31 August 2009, 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 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 two meetings until 31 December 2009. The Nomination Committee evaluates 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 endeavours to attain an even division between the sexes. The annual appraisal of the Board is the basis of the Nomination Committee's proposals to the AGM.

Work of the Board

Chairman's responsibilities
The Chairman of the Board organises and leads Board activities so they are conducted pursuant to the Swedish Companies Act, other laws and ordinances, applicable rules for listed companies (including the Code) and the Board of Directors' internal control instruments. The Chairman monitors operations in dialogue with the CEO and is responsible for other Board members gaining the information necessary to perform their duties. The Chairman participates in appraisal and development issues regarding the Group's senior executives. 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

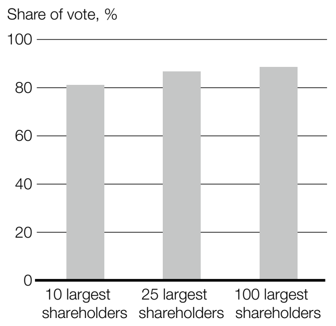
Cont. p. 30.

Find out more at www.hoganas.com

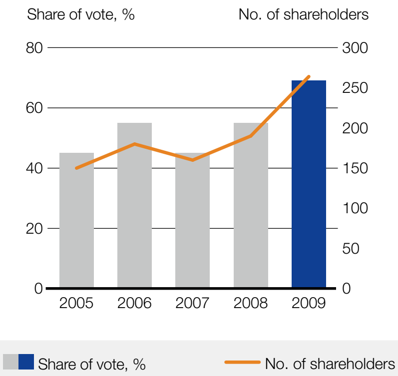
There is more information on corporate governance at Höganäs on the Internet, including:

- 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

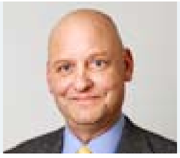


Board of Directors

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 Rederi AB Transatlantic and Yorklyde 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, Volvo Car Corporation, STC Interfinans and Pricer AB.	Board member of Axel Johnson AB, 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, Board member of Pandox AB, Munters AB, Helsingborgs Dagblad and Skanska.	Chairman of Bergendahls, Rezidor Hotel Group, HMS Networks, Global Health Partner AB 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 SKF's Industrial Division.	Chairman of Swedish Match AB, CEO and President of Nordstjernan 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).	SVP Industrivärden (Head of Investment). Head of Corporate Finance, Securum and Senior Partner of Navet Affärsutveckling AB.	CEO of Ratos AB and senior positions with SEB and Incentive Group.
Remuneration*						
Own and related parties' holdings	20,000 privately and 7,650,000 via company	18,500	17,500	5,000	0	5,000
Attendance at Board meetings	9/10	10/10	10/10	7/7	10/10	10/10
Attendance at Remuneration Committee meetings	6/6	-	-	3/3	6/6	-
Attendance at Audit Committee meetings	-	3/3	-	2/2	3/3	-
Attendance at Finance Committee meetings	-	3/3	3/3	-	-	3/3
Dependence/ independence**	Dependent in relation to major shareholders	Dependent in relation to the Company and the Corporate Management.	Independent	Independent	Independent	Independent






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' confederation, Kanthal 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, Becker Acroma Group 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 Akademikerföreningen 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*						
Own and related parties' holdings	0	Related parties own 20,000 shares privately and 7,650,000 through company	0	0	0	0
Attendance at Board meetings	9/10	6/7	10/10	9/10	9/9	9/9
Attendance at Remuneration Committee meetings	-	-	-	-	-	-
Attendance at Audit Committee meetings	-	2/2	3/3	-	-	-
Attendance at Finance Committee meetings	-	-	-	-	-	-
Dependence/ independence**	Independent	Dependent in relation to major shareholders				

** The AGM 2009 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 page 80 of the Annual Report.*

*** The judgment on the Board's dependence/independence has been conducted pursuant to NASDAQ OMX Stockholm's rules and criteria for independence.*

the Chief Executive Officer and instructions for financial reporting to the Board of Directors. The Board also adopted several other policies for the Group's operations. The Board supervises the Chief Executive Officer's work through the continuous monitoring of operations in the year.

The Board is responsible for organisational resources, management and guidelines for administering the Company's affairs being expediently structured, and that internal controls are satisfactory. The Board is also responsible for developing and monitoring the Company's strategy 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 2009

The current rules of procedure stipulate that the Board should meet on at least four scheduled occasions and one meeting following election each year, 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.

There were eight scheduled meetings in 2009 (including the meeting following election) and two additional meetings. Regular business at scheduled meetings 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, market and risk analysis.
- 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 evaluation of compliance with the Code.

In 2009, the work of the Board also focused on updating the measures taken against the background of the very sharp slowdown on the markets that became apparent in late-2008. The work of the Board in the year also considered matters including the Group's long-term funding 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 evaluated, and the Nomination Committee receives this evaluation.

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 members. The Chairman of the Board then submits the results of the appraisal to the 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. The Committee Chairman is responsible for all Board members and deputies receiving copies of the minutes of Committee meetings.

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	Shareholder's representative	8.2
Henrik Didner	Didner & Gerge Fonder AB	Fund Manager, Chairman of Didner & Gerge Fonder AB	8.0
Peter Rönström	Lannebo Fonder AB	Fund Manager	5.2
Anders G Carlberg	-	Chairman of Höganäs	0.1
Total			**59.3**

[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 23 October 2009. Jenny Lindén Urnes is Chairman of the Nomination Committee. The Nomination Committee held two meetings after the AGM 2009. There is no remuneration to the members of the Nomination Committee.

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 two members and a Chairman. In 2009, the Committee consisted of its Chairman Bengt Kjell and members Per Molin, Anders G Carlberg who succeeded Per Molin at the AGM 2009, Erik Urnes, who took up his duties at the AGM 2009 and Karl-Henry Boo.

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 two external members of the Committee.

Duties

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

- Continuous 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.
- Continuous discussion of the Company's current risk outlook, risk exposure and measures taken or planned by the Corporate Management with the Corporate Management and external Auditors to limit, monitor or control such risks.
- 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.
- Prepare 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 2009, 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 2009, the Committee consisted of Chairman of the Board, which was Per Molin until the AGM 2009, succeeded by 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 activities are formalised through dedicated instructions adopted by the Board as a part of its rules of procedure. The Committee considers and prepares remuneration matters affecting the Corporate Management, share-based incentive schemes and general profit-related bonus schemes. 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 six meetings in 2009, 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 2009, the Committee consisted of Chairman Alrik Danielson and members Bernt Magnusson and Urban Jansson. The 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 2009.

Duties

Because Höganäs' operations are almost exclusively international, and affected by international raw materials prices to a great degree, its exposure to a number of raw materials and currencies is significant. Because this exposure should also be considered as fairly complex, the Board has decided to adopt a Finance Policy and appoint a Finance Committee.

Committee work is formalised by dedicated instructions adopted by the Board as a part of its rules of procedure. The purpose of the Finance Committee is to formalise the management of currency, metal and electricity exposure in the Group in the auspices of the Company's Finance Policy, to monitor and reach decisions on affairs relating to financial risks and transactions, metal hedging and hedging of electric power.

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 three meetings in 2009, 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 justifies 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.

Principles for remuneration and other employment terms for management

The AGM 2009 approved the Board's proposed principles for remuneration and other employment terms for the corporate management. The principles were unchanged from those approved by the AGM 2008. 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 the principles in individual cases in special circumstances.

The complete principles are included in the AGM documentation on Höganäs' website, www.hoganas.com. Complete information on the management's remuneration is stated on page 80 of the Annual Report.

Remuneration to senior executives 2009 (MSEK)

	Basic salary	Performance-related pay	Other benefits	Pension cost	Share-based payment	Total
CEO	4.8	1.5	0.2	1.7	-	8.2
SVP	1.7	0.4	0.1	0.4	-	2.6
Other Management	18.9	3.1	1.9	4.1	-	28.0
Total	**25.4**	**5.0**	**2.2**	**6.2**	**-**	**38.8**

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 AGMs and make a report, stating an opinion on the audit process.

In 2009, the Auditors had consulting assignments relating to Group audit matters. The Auditors are elected for the period until the end of the AGM 2011.

Alf Svensson
Senior Auditor
Born: 1949
Höganäs' 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, Midelfart Sonesson Group and Nolato AB.
Other: Partner of KPMG since 1984.
Board member of KPMG AB.

Remuneration to Auditors (MSEK)

Year	Auditing	Other	Total
2007	4.0	2.4	6.4
2008	4.2	1.4	5.6
2009	5.5	1.6	7.1

Management

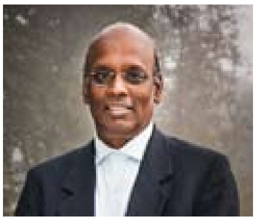

Alrik Danielson


Sven Lindskog


Avinash Gore


Ulf Holmqvist


Anders Andersson


Srini V Srinivasan


Per Engdahl


Hans Söderhjelm


Carl Eklund


Claudinei Reche

Alrik Danielson
CEO, President and Acting Vice President, Europe region
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
Höganäs shareholdings: 18,500
Option holdings: 11,720

Sven Lindskog
Chief Financial Officer
Employed since: 2007
Born: 1963
Educational qualifications: B.Sc. (Econ.)
Previous positions: CFO of Sardus AB, Finance Director of Unilever Nordic and various positions in the Unilever Group
Höganäs shareholdings: 1,000
Option holdings: 4,219

Avinash Gore
Vice President, North America region.
President, North American Höganäs, Inc.
Employed since: 2002
Born: 1954
Educational qualifications: B.Sc. (Eng.), M.B.A.
Previous positions: Alfa Laval AB in India, Africa, Australia and Denmark
Höganäs shareholdings: 0
Option holdings: 4,219

Ulf Holmqvist
Senior Vice President
Employed since: 1988
Born: 1954
Educational qualifications: B.Sc. (Eng.)
Previous positions: ABB Robotics
Höganäs shareholdings: 7,500
Option holdings: 4,219

Anders Andersson
Vice President, HR
Employed since: 1977
Born: 1951
Educational qualifications: B.Sc.
Previous positions: public sector
Höganäs shareholdings: 0
Option holdings: 4,219

Srini V Srinivasan
Vice President, India region
President, Höganäs India Ltd.
Employed since: 2008
Born: 1955
Educational qualifications: B. Tech (Metallurgy), M.B.A.
Previous positions: President of GKN Sinter Metals Ltd. India
Höganäs shareholdings: 0
Option holdings: 4,219

Per Engdahl
Vice President, Asia region
President, Höganäs China Ltd.
President, Höganäs Taiwan Ltd.
Employed since: 1985
Born: 1958
Educational qualifications: B.Sc. (Eng.)
Previous positions: Director of Sales and Business Development of Höganäs AB, SSAB
Höganäs shareholdings: 3,000
Option holdings: 4,219

Hans Söderhjelm
Vice President, Market & Product Development
Employed since: 1984
Born: 1955
Educational qualifications: B.Sc. (Eng.)
Previous positions: research assistant, RIT
Höganäs shareholdings: 13,100
Option holdings: 4,219

Carl Eklund
President, Höganäs Japan KK
Employed since: 2004
Born in 1953
Educational qualifications: B.Sc. (Eng.)
Previous positions: CEO of Volvo Nippon KK
Höganäs shareholdings: 13,000
Option holdings: 4,219

Claudinei Reche
Vice President, South America region
President Höganäs Brasil Ltda.
Employed since: 2005
Born: 1967
Educational qualifications: B.Sc. (Econ)
Previous positions: Sales Manager DaimlerChrysler and Sales Director at SKF
Höganäs shareholdings: 0
Option holdings: 4,219

The Board of Directors' review of internal controls

Pursuant to the Swedish Companies Act and the Code, the Board is responsible for internal controls. This review has been prepared pursuant to sections 10.5 and 10.6 of the Code, and is thus confined to the internal control of financial reporting.

In 2005, Höganäs decided to introduce the COSO framework for internal controls of financial reporting. The framework was launched in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). A review of the organisation of Höganäs' internal controls of financial reporting follows.

Control environment

Effective work of the Board is the basis of good internal controls. 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 controls 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, 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, Cash Flow Statement and Balance Sheet items subject to an increased risk of material 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.

The risk assessments are based 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 assessments are a series of activities aimed at identifying control measures and issuing the necessary instructions and controls.

Controlling

The Company's controlling 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 information when taking up employment.

Control and monitoring activities

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

Monitoring

Monitoring the effective structure and implementation of internal controls 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 cost of a dedicated internal audit function would not be justified in relation to the Company'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 controls 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 representative of the Company's main shareholder has this assignment.

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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 2009.

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 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 two-thirds 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 4,571 (6,103), down by 25% on 2008 due to lower sales volumes. Net sales were positively affected by plus 14% from depreciation of the Swedish krona, and by price increases, but negatively by metal price fluctuations. Excluding the operation acquired from Kobelco in 2008, net sales reduced by 26%.

The rapid demand downturn in the automotive industry and other important customer segments in late-2008 resulted in abnormally high inventory levels right through the value chain around the previous year-end. The combination of high inventory levels with an accentuated focus on cash flow caused the majority of customers worldwide to start reducing output rates in early-2009 to reduce inventories. Accordingly, demand for Höganäs' products was very weak in the first quarter. Stimulus measures like car scrapping premiums were introduced progressively across a number of countries, and tax easings on durables in Asia and South America. Overall, these measures triggered an increase in private consumption and demand from the end of the first quarter. The brisk demand increase meant that inventory levels in the value chain were low after the summer. Customers' needs to restore normal inventory levels also contributed to better-than-expected sales for Höganäs through the autumn.

Gross income was MSEK 960 (1,046). The negative variance was caused by lower sales volumes, especially in the first half-year. This resulted in a substantial shortfall of some MSEK 550. A low inventory turnover rate also meant that profit was charged with relatively high metal costs in the first half-year. This was partly offset by price increases implemented in the first quarter and cost savings implemented. Thanks to increasing volumes, cost absorption improved and was very positive in the second half-year. Gross income was also positively affected until the third-quarter inclusive by more favourable exchange rates than 2008. Moreover, fourth-quarter income in 2008 was also charged with the aforementioned metal inventory losses, inventory impairment losses and costs for staff reductions implemented. However, these positive variances for 2009 against 2008 were partially offset by extra impairment of fixed assets of MSEK 29.

Nickel and copper prices rose in 2009, primarily in the third quarter, while they fell heavily in 2008. This resulted in a difference in metal hedging gains/losses taken up as income of MSEK -75 for the full year.

Other operating income and operating costs were MSEK -61 (53) including sales of CO_2 emission rights of MSEK 40 (33) in the second quarter, an income effect from forward contracts on currencies of MSEK -94 (-73) and exchange rate differences of MSEK -13 (105). The periodical depreciation of the Swedish krona in the first quarter of 2009 caused positive exchange rate differences, while some appreciation in the remainder of the year caused negative exchange rate differences.

The total currency effect on gross income and other operating items is estimated to have improved income by MSEK 100 year on year.

Operating income was MSEK 298 (527). The operating margin was 6.5% (8.6) for the year. Operating margins were pressurised by weak absorption of fixed costs in the first half-year.

Income before tax was MSEK 271 (483). Income after tax was MSEK 206 (394).

Return on capital employed for the past 12 months was 7.2%

(12.8). The return for the second half-year isolated was 18%, due to better income and lower capital tied-up.

The equity/assets ratio at year-end was 51.8%, against 42.6% at year-end 2008. Equity per share was SEK 76.20 against SEK 69.10 at the beginning of the financial year.

Consolidated net indebtedness was MSEK 1,149 at year-end, down by MSEK 594 since the previous year-end. The net debt/equity ratio at year-end was a multiple of 0.43, compared to 0.72 at the beginning of the financial year.

Net financial income/expenses were MSEK -27 (-44). After the redemption procedure in June 2008, which was partially financed through increased utilisation of credit facilities, interest-bearing liabilities increased in the second half-year 2008. Liabilities reduced gradually through 2009, and interest rates were significantly lower than in 2008.

Cash and cash equivalents were MSEK 130 against MSEK 220 at the beginning of the financial year. Unutilised credit facilities of MSEK 1,688 were additional, of which MSEK 1,229 consists of a five-year credit facility.

Because the current five-year credit facility expires in June 2010, a new three-year credit facility has been arranged, which runs from June 2010 onwards.

Cash flow from operating activities was MSEK 855 (564). The change in working capital had a positive effect of MSEK 385 on cash flow in the period.

Financing activities had a MSEK -712 (-218) effect on cash flow. Utilisation of confirmed credit facilities reduced by MSEK 687 in the period. A cash dividend of MSEK 104 was implemented.

The remaining minority of Indian subsidiary Höganäs India Ltd. was acquired for MSEK 3 in 2009, giving rise to goodwill of MSEK 1.

Consolidated net investments in fixed assets were MSEK 229 (347). Depreciation and amortisation of fixed assets were MSEK 290 (260).

Ownership structure

Lindéngruppen AB, with 21.8% of the share capital and 37.8% of the vote, is the principal shareholder. Lindéngruppen 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 Exchange on the list of Mid Cap companies. The share is a constituent of the Metals & Mining sector index.

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 rights 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 quoted on the Stock Exchange. A trading lot amounts to one share.

There are no limitations to rights of transfer due to stipulations of law or the Articles of Association.

As stated above, the direct or indirect shareholdings in the Company representing at least one-tenth of the votes for all shares in the Company are held by Lindéngruppen with 21.8% of the share capital and 37.8% of the votes and Industrivärden with 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 after the year when 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 AGMs 2007-2009 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 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.

In 2005, Höganäs AB became party to four significant loan agreements totalling MEUR 225 with four lenders, which expire in June 2010. A new three-year MEUR 175 credit facility has been arranged, which runs from June 2010 onwards.

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 nine executives are entitled to severance pay of one to two years' salary including pension benefits. No severance pay is due coincident with termination initiated by the employees.

Significant events during and after the financial year

Höganäs AB, LKAB and StatoilHydro conduct feasibility study for the world's most CO_2-neutral DRI plant

In March 2009, Höganäs AB, LKAB and StatoilHydro reached an agreement to conduct a feasibility study for a new ironworks outside Trondheim in Norway. This project is examining the possibilities of future DRI (direct reduced iron) production in Norway. This partnership brings together the parties' technological know-how: the benefits of LKAB's iron ore pellets, Höganäs' usage and sale of metal products and

StatoilHydro's energy generation and gas refining competence. The intended location of the works is next to the Tjeldbergodden industrial estate south of Trondheim, which has good links to existing infrastructure such as an incoming natural gas pipeline, methanol plant and harbour. One important reason for location in Tjeldbergodden is the possibility of minimising CO_2 emissions by using natural gas. The ambition is to project manage the world's most CO_2-neutral DRI plant, i.e. an ironworks that discharges as little CO_2 as technologically possible. The study is scheduled for completion during the current year.

Election at the AGM

Per Molin and Oystein Krogen declined re-election to the Board of Directors, and Anders G Carlberg and Erik Urnes were elected.

PoP Centre inauguration

In October, Höganäs opened a new prototyping centre to drive development towards increased usage of metal powder. The Power of Powder Centre (PoP Centre) brings all Höganäs competences under one roof to develop new applications alongside customers and end-users. Guests from all around the world came to the inauguration, from component producers to representatives of different companies that are increasingly using powder components, in the automotive industry for example. Metal powder is a class of material that opens many new routes to more cost-efficient and superior alternatives. To realise these business opportunities, Höganäs wants to bring players even closer together and work creatively to help customers and end-users identify new opportunities. Höganäs' experts are now working closely with customers and end-users at the Centre to take visions to reality in short lead-times. They are supported by equipment at the absolute leading edge of technology.

Höganäs - testing in a rally car

Höganäs AB has entered a sponsorship agreement with Ramona Karlsson, one of Sweden's biggest hopes in rallying, who leads one of only two all-female teams in the Swedish Rally Championship. Ramona already has two Swedish championship gold medals and two bronze medals in other motorsports. In 2010, this team will be participating the Swedish Rally Championship and a number of international competitions in its new Mitsubishi EVO 9.

The collaboration involves testing new products in the most challenging conditions possible, such as gear-wheels in gearboxes pressed from powder. This sponsorship also provides international exposure of Höganäs AB's brand, and especially its major initiative to showcase the "Power of Powder."

Division of Parent Company operations

As of 1 January 2010, the operating activities of the Parent Company (Höganäs AB) are changing so that they will only encompass Group-wide operations, while the trading part, consisting of Europe region will be operated in a separate subsidiary, Höganäs Sweden AB.

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. A significant part of research is in collaboration with subcontractors, customers, end-users, universities and research institutions. By creating a Power of Powder Centre (PoP Centre), which opened in October, 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 12.

Höganäs AB conducted a technical survey in Sweden in the year, which will be submitted to the regulator with proposals for certain improvement measures in early-2010. An in-depth study into the incidence of potential land contamination is being conducted at the Swedish facilities. The first audit report has been submitted to the regulator. A provisional plan for continued monitoring at Höganäs properties was prepared, and was largely approved. The Company has received no demand to decontaminate or take other measures for contaminated land resulting from this.

Human resources

Around year-end 2008, Höganäs was already quickly adapting to the dramatic downturn on the market. Over 160 employees were affected in Sweden, Belgium, the US, Brazil and China. But further measures such as lay-offs, shorter working-hours and extended vacation stoppages affected operations throughout 2009.

At year-end 2009, the Group had 1,456 employees, a reduction of 68 people or 4% on the corresponding date of the previous year.

Acquisitions, transfers and holdings of treasury shares

At the beginning of 2009, Höganäs had 293,800 treasury shares, or 0.8% of the total number of shares. Höganäs did not re-purchase any shares in 2009. The number of treasury shares did not change (more information under 'incentive schemes'), and at year-end 2009, was 293,800. 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 26. More information on how long each Board member has been on Höganäs' Board of Directors, other assignments and main employment are stated on the Board's presentation on page 28 - 29 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. 250,000 options are intended for granting 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

Very weak demand conditions in the fourth quarter of 2008 and early-2009 gradually improved from March onwards. Höganäs judges that demand will continue to improve gradually in 2010, but the rate is highly uncertain. It is reasonable for Asia and South America to be the markets where the recovery is most noticeable, led by strong domestic demand growth, but it will take longer in Europe. Progress in North America remains highly unsure due to prevailing uncertainty regarding the domestic automotive industry and its subcontractors. Exchange rates and metal prices are expected to remain volatile.

Parent Company's results operations and financial position

Parent Company net sales were MSEK 2,411 (3,386), a 29% decrease. Sales to Group companies amounted to MSEK 679 (1,432). Lower turnover is due to reduced sales volumes.

Operating income was MSEK 152 (270) in the period. Parent Company income was negatively affected mainly by a very substantial shortfall due to lower sales volumes.

Investments in fixed assets were MSEK 127 (167). Parent Company cash and cash equivalents were MSEK 19 at the end of the period, against MSEK 88 at the beginning of the financial year.

Remuneration guidelines for senior executives

Fees are payable to the Chairman of the Board and Board members, as are fees for committee work, pursuant to AGM resolution. The AGM resolved on the following guidelines for remunerating management.

Remuneration to the Chief Executive Officer and other senior executives consists of basic salary, performance-related pay, other benefits, pensions and financial instruments, etc. Other senior executives means the nine people that comprised the Group management in 2009 along with the Chief Executive Officer.

The division between basic salary and performance-related pay will be proportionate with 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 executives 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 will relate to the Company's progress, with granting determined by aggregating predetermined target figures for volume and earnings growth, and return on capital employed, as determined by the Board of Directors.

The Chief Executive Officer will be eligible for a special share-based incentive scheme, whose outcome for each financial year will relate to the CEO's shareholdings of the Company and the Group's earnings performance.

The Board of Directors' proposed remuneration guidelines for senior executives for 2010 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 967,065,911 are appropriated as follows:

Dividends, 34,805,132 * SEK 3.00	104,415,396
Carried forward	862,650,515
Total	**967,065,911**

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 49%. 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 Standards) 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 were approved for issuance by the Board of Directors on 8 February 2010. The Consolidated Income Statement, Consolidated Statement of Comprehensive Income and Consolidated Balance Sheet and the Parent Company Income Statement and Parent Company Balance Sheet will be subject to adoption by the AGM on 26 April 2010.

Höganäs, Sweden, 8 February 2010

Anders G Carlberg
Chairman

Peter Gossas

Urban Jansson

Bengt Kjell

Jenny Lindén Urnes

Bernt Magnusson

Erik Urnes

Karl-Henry Boo
Employee representative

Tony Petersson
Employee representative

Alrik Danielson
Chief Executive Officer

Consolidated Income Statement

1 January - 31 December

MSEK	Note	2009	2008
Net sales	2	4,571	6,103
Cost of goods sold		-3,611	-5,057
Gross profit		**960**	**1,046**
Selling expenses		-225	-219
Administrative expenses		-277	-231
Research and development costs		-99	-122
Other operating income	3	69	97
Other operating expenses	4	-130	-44
Operating income	2, 5, 6, 7,13, 25	**298**	**527**
Financial income		5	13
Financial expenses		-32	-57
Net financial income/expense	8	**-27**	**-44**
Income before tax		**271**	**483**
Tax	9	-65	-89
Net income		**206**	**394**
Net income attributable to:			
Parent company shareholders		206	394
Minority interests		0	0
Net income		**206**	**394**
Earnings per share:			
Before dilution (SEK)	21	5.92	11.31
After dilution (SEK)		5.92	11.31

Consolidated Statement of Comprehensive Income

1 January - 31 December

MSEK	Note	2009	2008
Net income	**21**	**206**	**394**
Other comprehensive income			
Translation differences for the period		-164	552
Hedging of currency risk in foreign operations		225	-534
Cash flow hedges		196	-180
Tax attributable to other comprehensive income		-110	150
Comprehensive income for the year		**353**	**382**
Comprehensive income for the year attributable to:			
Parent company shareholders		353	382
Minority interests		0	0
Comprehensive income for the year		**353**	**382**

Consolidated Statement of Financial Position

As of 31 December

MSEK	Note	2009	2008
ASSETS			
Intangible assets	11	291	248
Property, plant and equipment	12	2,458	2,572
Long-term receivables	16	92	58
Deferred tax assets	9	89	125
Total fixed assets		**2,930**	**3,003**
Inventories	17	1,152	1,479
Tax assets		23	80
Accounts receivable - trade	18	707	728
Prepaid expenses and accrued income	19	56	49
Other receivables		120	83
Cash and cash equivalents	20	130	220
Total current assets		**2,188**	**2,639**
TOTAL ASSETS		**5,118**	**5,642**
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholders' equity	21		
Share capital		175	175
Provisions		55	-92
Profit brought forward including net income		2,423	2,321
Shareholders' equity attributable to parent company shareholders		**2,653**	**2,404**
Minority interests		**-**	**2**
Total shareholders' equity		**2,653**	**2,406**
Liabilities			
Long-term interest-bearing liabilities	23, 31	1,130	1,901
Other long-term liabilities	24	56	67
Provisions for pensions	25	12	16
Other provisions	26	25	17
Deferred tax liabilities	9	297	305
Total long-term liabilities		**1,520**	**2,306**
Current interest-bearing liabilities	23	137	47
Advances from customers		2	-
Accounts payable		441	401
Tax liabilities		53	27
Other liabilities		59	213
Accrued expenses and deferred income	28	219	223
Other provisions	26	34	19
Total current liabilities		**945**	**930**
Total liabilities		**2,465**	**3,236**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**5,118**	**5,642**

Pledged assets and contingent liabilities for the Group

MSEK	Note	2009	2008
Pledged assets	29	47	53
Contingent liabilities	29	81	160

Consolidated Statement of Changes in Shareholders' Equity

MSEK	Note 21	Share capital	Translation provision	Hedging provision	Profit brought forward incl. net income	Total	Minority interest	Total share-holders' equity
		Shareholders' equity attributable to parent company's shareholders						
Opening shareholders' equity, 1 Jan. 2008		175	-70	-10	2,669	2,764	2	2,766
Comprehensive income for the year		-	121	-133	394	382	-	382
Dividends paid		-	-	-	-218	-218	-	-218
Redemption procedure		-	-	-	-522	-522	-	-522
Share-based payment settled with equity instruments, IFRS 2		-	-	-	-2	-2	-	-2
Closing shareholders' equity, 31 Dec. 2008		**175**	**51**	**-143**	**2,321**	**2,404**	**2**	**2,406**
Opening shareholders' equity, 1 Jan. 2009		175	51	-143	2,321	2,404	2	2,406
Comprehensive income for the year		-	2	145	206	353	-	353
Dividends paid		-	-	-	-104	-104	-	-104
Acquisition of minority		-	-	-	-	-	-2	-2
Closing shareholders' equity, 31 Dec. 2009		**175**	**53**	**2**	**2,423**	**2,653**	**-**	**2,653**

Consolidated Statement of Cash Flows

1 January - 31 December

MSEK	Note	2009	2008
Operating activities			
Operating income		298	527
Adjustments for non-cash items			
Depreciation and amortisation	11,12	290	260
Impairment losses		29	-
Unrealised exchange rate differences		-63	18
Capital gain on divestment		-39	-26
Other items		-51	5
Interest received		5	9
Interest paid		-33	-54
Realised exchange rate differences		100	-72
Other financial costs		-1	-1
Income tax paid		-65	-201
Cash flow from operating activities before changes in working capital		**470**	**465**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		297	-29
Increase (-)/decrease (+) in operating receivables		22	276
Increase (+)/decrease (-) in operating liabilities		66	-148
Cash flow from operating activities		**855**	**564**
Investing activities			
Acquisitions of business operations		-3	-3
Acquisition of intangible assets	11	-42	-13
Divestment of intangible assets		26	-
Acquisition of property, plant and equipment	12	-223	-362
Divestment of property, plant and equipment		5	24
Divestment of financial fixed assets		8	7
Cash flow from investing activities		**-229**	**-347**
Financing activities			
Borrowings		79	634
Amortisation of loans		-687	-112
Dividend paid/transferred to parent company shareholders		-104	-740
Cash flow from financing activities		**-712**	**-218**
Cash flow for the year		-86	-1
Cash and cash equivalents at beginning of year		220	211
Exchange rate differences in cash and cash equivalents		-4	10
Cash and cash equivalents at end of year	20	**130**	**220**

Parent Company Income Statement

1 January - 31 December

MSEK	Note	2009	2008
Net sales	2	2,411	3,386
Cost of goods sold		-1,899	-2,812
Gross profit		**512**	**574**
Selling expenses		-104	-121
Administration expenses		-132	-116
Research and development costs		-91	-123
Other operating income	3	53	63
Other operating expenses	4	-86	-7
Operating income	5, 6, 13	**152**	**270**
Profit from financial items:			
Earnings on participations in Group companies		20	24
Interest income and similar items		71	55
Interest expenses and similar items		-43	-84
Profit after financial items	8	**200**	**265**
Appropriations	10	215	102
Income before tax		**415**	**367**
Tax	9	-105	-99
Net income		**310**	**268**

Parent Company Balance Sheet

As of 31 December

MSEK	Note	2009	2008
ASSETS			
Fixed assets			
Intangible assets	11	120	64
Property, plant and equipment	12	1,164	1,222
Financial fixed assets			
Shares in Group companies	14	1,229	910
Receivables from Group companies	15	1,039	1,476
Other long-term receivables	16	2	-
Deferred tax assets	9	6	57
Total financial fixed assets		2,276	2,443
Total fixed assets		**3,560**	**3,729**
Current assets			
Inventories, etc.	17	495	550
Current receivables			
Accounts receivable - trade	18	279	230
Receivables from Group companies		98	130
Tax assets		-	49
Other receivables		105	36
Prepaid expenses and accrued income	19	46	35
Total current receivables		528	480
Cash and bank balances	20	19	88
Total current assets		**1,042**	**1,118**
TOTAL ASSETS		**4,602**	**4,847**

Parent Company Balance Sheet, cont.

As of 31 December

MSEK	Note	2009	2008
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	21		
Restricted equity			
Share capital (981,000 class A shares and 34,117,932 class B shares)		175	175
Statutory reserve		39	39
Non-restricted equity			
Fair value reserve		-41	-182
Profit brought forward		698	589
Net income		310	268
Total shareholders' equity		**1,181**	**889**
Untaxed reserves	22	**695**	**910**
Provisions			
Provisions for pensions		5	26
Other provisions	26	16	16
Total provisions		**21**	**42**
Long-term liabilities			
Liabilities to credit institutions	27	1,100	1,796
Liabilities to Group companies		844	546
Other long-term liabilities	24	44	35
Total long-term liabilities		**1,988**	**2,377**
Current liabilities			
Liabilities to credit institutions	27	79	-
Advance payments from customers		1	-
Accounts payable - trade		318	225
Liabilities to Group companies		70	24
Current tax liabilities		30	-
Other liabilities		35	194
Accrued expenses and deferred income	28	150	168
Other provisions	26	34	18
Total current liabilities		**717**	**629**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**4,602**	**4,847**

Parent company pledged assets and contingent liabilities

MSEK	Note	2009	2008
Pledged assets	29	10	10
Contingent liabilities	29	337	438

Parent Company Statement of Changes in Shareholders' Equity

	RESTRICTED EQUITY		NON-RESTRICTED EQUITY		
MSEK	**Share capital**	**Statutory reserve**	**Fair value reserve**	**Profit brought forward**	**Total sharehold-ers' equity**
Opening shareholders' equity 1 Jan. 2008	175	39	-27	1,403	1,590
Hedging of currency risk in foreign operations	-	-	-25	-	-25
Cash flow hedges					
Change in fair value for the year	-	-	-182	-	-182
Transferred to net income	-	-	-3	-	-3
Group contribution paid	-	-	-	-104	-104
Group contribution received	-	-	-	4	4
Tax attributable to items reported directly to shareholders' equity	-	-	55	28	83
Total changes in net worth reported directly to shareholders' equity, excl. transactions with the company's shareholders	-	-	-155	-72	-227
Net income	-	-	-	268	268
Total changes in net worth, excl. transactions with the company's shareholders	-	-	-155	196	41
Dividends	-	-	-	-218	-218
Redemption procedure	-	-	-	-522	-522
Share-based payment settled with equity instruments	-	-	-	-2	-2
Closing shareholders' equity, 31 Dec. 2008	**175**	**39**	**-182**	**857**	**889**
Opening shareholders' equity, 1 Jan. 2009	175	39	-182	857	889
Hedging of currency risk in foreign operations	-	-	-4	-	-4
Cash flow hedges					
Change in fair value for the year	-	-	307	-	307
Transferred to net income	-	-	-112	-	-112
Group contribution paid	-	-	-	-75	-75
Group contribution received	-	-	-	2	2
Tax attributable to items reported directly to shareholders' equity	-	-	-50	18	-32
Total changes in net worth reported directly to shareholders' equity, excl. transactions with the company's shareholders	-	-	141	-55	86
Net income	-	-	-	310	310
Total changes in net worth, 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**

Parent Company Cash Flow Statement

1 January - 31 December

MSEK	Note	2009	2008
Operating activities			
Operating income		152	270
Adjustments for non-cash items			
Depreciation and amortisation	11, 12	147	144
Impairment losses		29	-
Unrealised exchange rate differences		-2	4
Other items		-82	5
Interest received		24	54
Dividends received		20	24
Interest paid		-29	-47
Realised exchange rate differences		24	-13
Income tax paid		-6	-122
Cash flow from operating activities before changes in working capital		**277**	**319**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		55	-58
Increase (-)/decrease (+) in operating receivables		-37	299
Increase (+)/decrease (-) in operating liabilities		100	-80
Cash flow from operating activities		**395**	**480**
Investing activities			
Acquisition of subsidiary, net liquidity effect	14	-4	-
Amortisation from/lending to subsidiaries		302	-42
Acquisition of intangible assets	11	-28	-
Divestment of intangible assets		26	-
Acquisition of property, plant and equipment	12	-127	-167
Divestment of property, plant and equipment		1	-
Divestment of financial fixed assets		1	-
Cash flow from investing activities		**171**	**-209**
Financing activities			
Borrowing		79	606
Amortisation of loans		-610	-84
Dividend paid/transferred		-104	-740
Cash flow from financing activities		**-635**	**-218**
Cash flow for the year		-69	53
Cash and cash equivalents at beginning of year		88	35
Cash and cash equivalents at end of year	20	**19**	**88**

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 1.2 (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 8 February 2010. The Consolidated Income Statement, Statement of Comprehensive Income and Statement of Financial Position and the Parent Company Income Statement and Balance Sheet will be subject to adoption by the Annual General Meeting on 26 April 2010.

(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 reports 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 corporate management making judgements and estimates, and assumptions that influence the adoption of the accounting principles and the reported values of assets, liabilities, income and expenses. Actual values 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 the corporate 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) Revised accounting principles
(i) Revised accounting principles caused by new or revised IFRS
The following reviews those revised accounting principles the Group is applying from 1 January 2009 onwards. Other amendments of IFRS with application from 2009 onwards did not have any material effect on the Group's accounting.

Presentation of financial statements
The Group has applied revised IAS 1 Presentation of Financial Statements (2007) since 1 January 2009. This amendment implied that revenues and expenses previously reported directly in equity are now reported in other comprehensive income instead, which Höganäs presents in a separate income statement termed the Statement of Comprehensive Income, presented immediately after the Income Statement. Höganäs has chosen to use the new titles in its statements introduced with IAS 1 (2007) - Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

Comparative periods have been consistently restated in the annual accounts so that they conform to the new presentation. Because amendments only affect presentation, no amounts have been restated, either in terms of earnings per share or other items in the financial statements.

Segment disclosures
The Group has applied the new IFRS 8 Operating Segments since 1 January 2009, which replaces IAS 14 Segment Reporting. IFRS 8 introduces a management perspective of how operating segments should be divided and presented. The new principles are reviewed below under accounting principles in this Note. The standard has been applied in accordance with its transition rules, implying comparative year information being adapted to the requirements of IFRS 8.

For Höganäs, the application of IFRS 8 did not imply any change to segment division, because the segments identified in accordance with IAS 14 were consistent with those monitored by Group management.

The Group is continuing to apply the same accounting principles in its operating segments as in the consolidated accounts, i.e. IFRS. Previously, the earnings effect of currency hedges were reported as other/Group items and separated from segment operating income. From 2009 onwards, all the operating activities of Höganäs are reported by segment, apart from the sale of CO_2 rights, which going forward, will also be reported as other/Group items. Comparative figures for the previous year have been restated correspondingly.

Disclosures regarding financial instruments
Amendments to IFRS 7 Financial Instruments: Disclosures, with application from 1 January 2009 affect Höganäs' financial reporting from the Annual Report for 2009 onwards. Mainly, these amendments imply new disclosure requirements for financial instruments measured at fair value in the Statement of Financial Position.

Instruments are divided into three tiers depending on the quality of input data in their measurement. The division into tiers determines how and which disclosures should be submitted for instruments, with tier 3 being the lowest quality of input data covered by more disclosure requirements than the other tiers. These disclosure requirements mainly affected Note 31 below. Additionally, the amendment of IFRS 7 implies some restatements regarding changes in disclosures of liquidity risk.

Pursuant to the transition rules of IFRS 7, the first year of application does not require comparative disclosures for those disclosures required by the amendments. Nevertheless, Höganäs has chosen to disclose comparative information for 2008 voluntarily for the new disclosures arising due to the amendments. Because the amendments do not affect how reported amounts should be measured, amounts in the financial statements have not been restated.

Borrowing costs
The Group applied revised IAS 23 borrowing costs on 1 January 2009. The amendment means that the Group capitalises borrowing costs for qualifying assets that have a start date on 1 January 2009 or later. Previously, borrowing costs were charged to income in the period to which they relate instead of being capitalised. Pursuant to the transition rules of IAS 23, this amendment is being adopted prospectively. For more information on the accounting principle, see the section below in this Note.

(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.

Revised IFRS 3 *Business Combinations* and Amended IAS 27 *Consolidated and Separate Financial Statements* imply changes including the following: the definition of an operation is changed, transaction expenditure in business combinations should be expensed, conditional purchase prices should be measured at the value on the acquisition date and the effect of restating liabilities related to conditional purchase prices should be reported as a revenue or expense in net income. Other news includes there being two alternative ways to report minorities and goodwill, either at fair value, i.e. goodwill is included in the minority, or alternatively, that

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

the minority becomes a part of net assets. The choice between these two methods will be made individually for each business combination. Moreover, additional acquisitions that occur after controlling influence is obtained will be considered as transactions with owners and reported directly in equity, which is a change to Höganäs' current principle, which is to report excess amounts as goodwill. The revised and amended standards will be applied from the next financial year onwards, i.e. from 1 January 2010 onwards. The amendments will only have prospective effects for Höganäs.

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 capital amounts and interest on capital amounts at specified dates. Other financial assets are reported at fair value and the possibility of applying the fair value option as in IAS 39 is retained. Changes in fair value should be reported 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 reported pursuant to IAS 39. Höganäs has not decided whether to apply the new principles prospectively or from 2013 onwards.

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. The interpretation statement also deals with the matter of where in the Group the hedging instrument can be located if edge accounting is applied, and the consolidation method affects the amounts re-classified to net income, i.e. in consolidation step by step or consolidation line by line. According to the interpretation, some of the hedging relations that Höganäs previously classified as hedges of net investment cannot constitute hedges. Hedge accounting for these hedges, which do not have a material effect on the consolidated accounts, will be discontinued from 1 January 2010.

Höganäs judges that the following amendments of accounting principles with prospective adoption will not have any effect on the Group's accounting:

- Amendments of IFRS 1 *First-time Adoption of IFRS* are applied in respect of additional exemptions.
- Amendments of IFRS 2 *Share-based Payment* in respect of cash-settled intragroup payments.
- Amendments of IAS 24 *Related Party Disclosures*, mainly in respect of disclosures for government-related companies, but also, the definition of related parties.
- Amendments of IAS 32 *Financial Instruments:* Presentation in respect of classification of new share issues.
- Amendments of IAS 39 *Financial Instruments*: Recognition and Measurement in respect of items qualifying for hedge accounting.
- IFRIC 12 *Service Concession Agreements.*
- Amendments of IFRIC 14 IAS 19 *Defined-benefit Assets and Minimum Funding Requirements and their Interaction* regarding advance payments to cover minimum funding requirements.
- IFRIC 15 *Agreements for the Construction of Real Estate.*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*.
- IFRIC 18 *Transfers of Assets from Customers*.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments.*
- Annual improvements that are not already applicable, mainly among those published in April 2009.

In summary, the revised accounting principles with prospective application in the above examples are judged to have no effect on the Company's accounting, have the following implications:

The amendments of IFRS 2 Share-based Payment mainly imply a clarification of the application and classification of payments settled with cash or other assets (e.g. equity instruments in another Group company) by another company than the Company that receives the services or goods. The amendments determine that such cash-settled intragroup payments lie within the application area of IFRS 2, and how the settling and receiving company should classify the remuneration payment as equity or cash-settled payment. The amendment should be applied retroactively from financial years that begin on 1 January 2010 or later.

Amendments of IAS 24 Related Party Disclosures mainly mean some exemptions from the disclosure requirements are introduced for companies over which central government has a controlling or significant influence, but also that the definition of a related party is simplified, clarified and asymmetric elements removed. These easings introduced mean that government-related companies no longer need to submit all disclosures on related parties with either (i) the central government that has the controlling or significant influence over the Company or (ii) other companies related to the same central government. If this option is utilised, new, less extensive disclosures are submitted instead. The amendment of the definition of related parties means that a number of special relations are additional to the related parties category, while others are removed. This amendment should be applied retroactively from financial years that begin on 1 January 2011 or later.

Amendments to IAS 32 Financial Instruments: Presentation regarding the presentation of new share issue states that rights, options or warrants to acquire a fixed number of the Company's equity instruments for a fixed amount in any currency are equity instruments, if the Company offers rights, options or warrants pro rata to all its existing owners. Before this amendment, issues made at a fixed amount in a currency other than the Company's functional currency are classified as a liability. The amendment should be applied by financial years that start on 1 February 2010 or later.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement considers 'items qualifying for hedge accounting' and clarifies application of the principles for hedge accounting for cash flow hedging of a very likely forecast transaction with the bought option and clarifies the options for hedging identifiable components in a hedged item. This amendment should be applied to financial years that begin after 30 June 2009, with retroactive application.

IFRIC 12 Service Concession Agreements deals with the issue of how private sector players should report facilities and the rights and liabilities ensuing from agreements with central or local government regarding financing, operating and developing such facilities. The interpretation is applied from financial years that begin on 29 March 2009 or later. Application will be retroactive, apart from when it is not possible to measure certain values.

Amendments of IFRIC 14 IAS 19 Defined-benefit Assets and Minimum Funding Requirements and their Interaction state that advance payments to settle minimum funding requirements may be reported as an asset. The interpretation is applied from financial years that begin on 1 January 2011 or later, with retroactive application from the beginning of the earliest comparative period.

IFRIC 15 Agreements for the Construction of Real Estate considers the issue of when an agreement regarding the construction of real estate should be regarded as being covered by IAS 11 Construction Contracts or IAS 18 Revenue, and when revenues from the construction of real estate should be recognised. This interpretation is applied for financial years that begin on 1 January 2010 or later, with retroactive application.

IFRIC 17 Distributions of Non-cash Assets to Owners deals with questions relating to paying dividends with assets other than cash. Liabilities for distribution are reported at fair value when the dividend is determined with the corresponding item profit brought forward. At subsequent ends of reporting periods and at the time of the distribution, the fair value of the liability is restated, with value changes reported in equity. When executing the distribution, the difference between the fair value of the liability and the carrying amount of the assets is reported on a separate line in net income. The interpretation is applied prospectively from financial years that begin on 1 November 2009 or later.

IFRIC 18 Transfers of Assets from Customers deals with matters including questions of how recipients account agreements that formalises cases where customers transfer property, plant and equipment to the Company, that is then used either to connect the customer to a network or supply the customer with ongoing access or goods or services, or both. The interpretation also considers the cases where the Company receives cash from a customer according to contract to produce or acquire property, plant and equipment used for the same purpose. This interpretation is applied prospectively from financial years that begin on 1 November 2009 or later.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments clarifies instructions regarding reporting the terms and conditions of financial liabilities being renegotiated so that the lender accepts settlement of all or part of the liability repayment with shares or other equity instruments of the Company. The value of the equity instrument should be included in the payment submitted to re-pay the liability, and primarily, should be measured at the fair value of the equity instrument. If the instruments cannot be measured reliably, they should be measured at the fair value of the liability settled. Differences between the carrying amount of the re-paid liability and the value of the equity instrument is reported in net income. This interpretation is applied from financial years that begin on 1 July 2010 or later, with retroactive application from the start of the earliest comparative year.

(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. 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 benefits. Judgements whether a controlling influence exists, consider potential shares conferring votes, which can be used or converted immediately.

Subsidiaries are reported pursuant to acquisition accounting, which means that the acquisition of a subsidiary is treated as a transaction, whereby the Group indirectly acquires a subsidiary's assets and takes over its liabilities and contingent liabilities. The consolidated cost is determined through an acquisition analysis related to the acquisition. This analysis partly determines the cost of participations or operating activities, partly the fair value of the acquired identifiable assets at the acquisition date, and liabilities and contingent liabilities taken over. The cost of the subsidiary shares and operations comprise the total of the fair value at the acquisition date of paid assets, liabilities that have arisen or have been taken over, and of the issued equity instruments submitted as payment in exchange for the acquired net assets, and transaction expenses directly attributable to the acquisition. For business combinations where the acquisition cost exceeds the fair value of the acquired assets and liabilities taken over and contingent liabilities taken over reported separately, the difference is reported as goodwill. When negative, the difference is reported directly in net income.

Subsidiary financial statements are consolidated into the consolidated accounts from acquisition date to the date the controlling influence ceases.

(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 reported in net income. Non-monetary assets and liabilities reported at historical cost are translated at the rate of exchange ruling at the time of the transaction. Non-monetary assets and liabilities reported 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 reported directly 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 reported in the translation reserve.

(iii) Net investment in a foreign operation

In practice, long-term monetary receivables/long-term monetary 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/long-term monetary liability is reported 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 difference attributable to the long-term monetary receivables/long-term monetary 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 benefits associated with ownership of the goods has been transferred to the buyer. Income is not recognised if it is likely that the economic benefits 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 reported in net income on a straight-line basis over the lease term. Benefits received coincident with signing a contract are reported 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 reported 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 benefits associated with ownership of the instrument have been transferred to the buyer and the Group no longer exerts control over the instrument.

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

Exchange gains and losses are reported net.

Effective interest is the interest that discounts the estimated future payments received and paid 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 reported in net income apart from when the underlying transaction is reported 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 taxable 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.

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 reported 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.

Classification and valuation

Non-derivative financial instruments are initially reported at cost corresponding to the fair value of the instrument plus transaction expenses for all financial instruments apart from those categorised as financial assets reported at fair value via income, which are reported 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 reported 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 reported 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 reported 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, Financial risks and finance policy. The reporting of financial income and costs is also considered under principle (n) above.

Financial guarantees

The Group's financial guarantee agreements mean that the Group has an obligation to reimburse the holder of debt instruments for losses the holder incurs due to the designated debtor not completing payment according to the original or revised contract terms.

Initially, financial guarantee agreements are reported at fair value, i.e. in the normal case the amount the issuer received as remuneration for the issued guarantee. In subsequent measurement, the liability for the financial guarantees is reported at the higher of the amount reported pursuant to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount originally reported after deductions for accumulated allocations, where applicable, reported pursuant to IAS 18 Revenue.

(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 reported 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 reported in net income. Exchange rate fluctuations on trading receivables and liabilities are reported in operating income, while exchange rate fluctuations on financial receivables and liabilities are reported 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 reported 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 reported 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 efficacy are satisfied. The gain or loss attributable to the ineffective portion of unrealised value changes of interest swaps is reported in net income.

(iv) Hedging of fair value of non-financial assets
When a hedging instrument is used for hedging a fair value, the derivative is reported at fair value in the Statement of Financial Position and the hedged asset is also reported at fair value in respect of the risk that is hedged. Value changes on derivatives are reported in net income together with the value change on the hedged item.

Hedging of fair values is used for hedging the value of certain non-financial assets in the Statement of Financial Position, and when hedging some binding purchase commitments in respect of price risk.

(v) 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 reported in net income in the same way as the hedging instrument.

(vi) 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 reported 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.

(vii) 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 reported directly 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 a tangible fixed asset is removed from the Balance Sheet upon disposal or divestment, or where no future economic benefits 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 reported 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 benefits 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 Balance Sheet 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 contract. 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 Balance Sheet. 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 benefits 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 qualified assets are capitalised as a part of the qualified asset's cost. A qualified 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 qualified asset. Secondly, borrowing costs arising on general loans,

that are not specific to any qualified 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 estimated useful lives 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 assigned 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 posted directly to 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, e.g. 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 reported 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 benefits.

Capitalised development expenditure is amortised on a straight-line basis over estimated useful lives, from the time when usage of the asset can begin. The depreciation period will not exceed 10 years.

(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 reported 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 benefits 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 qualified assets are capitalised as a part of the qualified asset's cost. A qualified 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 qualified asset. Secondly, borrowing costs arising on general loans, that are not specific to any qualified 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 reported 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 are:

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

Useful lives are tested every year.

(vii) Emission rights
The allocation of CO_2 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 costs 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 of 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, Höganäs has defined benefit plans in the US, Korea, 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 reported 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 reported 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 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 reported 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.

An incentive scheme for the Company's CEO was resolved at the AGM, relating to share-based payment. The scheme's terms and conditions are stated in Note 25. The commitment is recognised at fair value at the grant date and reported as a personnel expense with a corresponding increase of shareholders' equity, allocated over its vesting periods. Because the CEO is employed with the Parent Company, personnel expenses for the incentive scheme are recognised directly in the Parent Company. Provisioning for social security expenses is allocated over the vesting period, with restatement at the reporting date based on the fair value of options and with changes reported in the Income Statement.

(z) Provisions

A provision differs from other liabilities because of uncertainty 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 obligation ensuing from an event that has occurred, and it is likely that an outflow of financial resources will be necessary to fulfil the commitment, and the amount can be reliably estimated.

Provisions are made at an amount that is the best estimate of what is required to fulfil the existing commitments on the reporting date. When the effect of the timing of the payment is significant, the provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects the relevant market valuation of the time value of money and, if applicable, the risks associated with the liability.

(i) Emission rights
Used rights are reported at cost, as cost of goods sold and provisions respectively. A more detailed 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 reported 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 2.2 (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 2.2 means that in its annual accounts for the legal entity, the Parent Company applies 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.

Revised accounting principles
There were no revised accounting principles in the year.

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

(i) Classification and format
The Parent Company Income Statement and Balance Sheet have been prepared pursuant to the Swedish Annual Accounts Act's format. The discrepancy with IAS 1, Presentation of Financial Statements, is primarily that the Group presents an Income Statement and a Statement of Comprehensive Income. Additionally, the Group uses the names Statement of Financial Position (for balance sheet) and Statement of Cash Flows. The differences with the Group's statements applicable in the Parent Company's Income Statement and Balance Sheet primarily relate to the reporting of financial income and expenses, fixed assets, shareholders' equity and the presentation of provisions as a separate heading in the Balance Sheet.

(ii) Subsidiaries
In the Parent Company, shares in subsidiaries are reported pursuant to acquisition accounting. Dividends received are reported as income only if they arise from earnings accrued after the acquisition. Dividends exceeding these accrued earnings are considered as re-payment of the investment and reduce the carrying amount of the shares.

(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 valued 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) 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 accounting implication, 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 which parts of operating activities the Company's chief operating decision maker monitors, termed 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.

Höganäs' segment information was already based on internal reporting supplied to management. As a consequence, Höganäs AB's segment division has not changed compared to that previously presented pursuant to IAS 14.

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', i.e. 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 72% 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. 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.

Group

OPERATING SEGMENTS

	Components		Consumables		Eliminations		Total	
MSEK	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Income								
External sales	3,292	4,465	1,279	1,638			4,571	6,103
Internal sales	801	1,791	238	467	-1,039	-2,258	-	-
Total income	**4,093**	**6,256**	**1,517**	**2,105**	**-1,039**	**-2,258**	**4,571**	**6,103**
Earnings								
Operating income	181	352	77	137			258	489
Group items	-	-	-	-	40	38	40	38
Adjusted operating income	**181**	**352**	**77**	**137**	**40**	**38**	**298**	**527**
Financial income							5	13
Financial expenses							-32	-57
Tax							-65	-89
Net income							**206**	**394**
Assets								
Assets	3,524	3,818	1,483	1,620			5,007	5,438
Unallocated assets							111	204
Total assets							**5,118**	**5,642**
Liabilities								
Liabilities	548	635	277	372			825	1,007
Unallocated liabilities							1,640	2,229
Total liabilities							**2,465**	**3,236**
Other information								
Investments	193	249	72	129			265	378
Depreciation	-215	-189	-75	-71			-290	-260
Impairment	-23	-	-6	-			-29	-

Previously, the earnings effect of currency hedges were reported separately and separated from segment operating income. From 2009 onwards, all the operating activities of Höganäs are reported by segment, apart from the sale of CO_2 rights, which going forward, will also be separated. Comparative figures for the previous year have been restated correspondingly.

CONT. NOTE 2 OPERATING SEGMENTS

Parent Company

	Components		Consumables		Total	
MSEK	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Income						
Sales	1,988	2,950	423	436	2,411	3,386

GEOGRAPHICAL REGIONS

Group

	Income from external customers		Assets	
	2009	**2008**	**2009**	**2008**
Sweden	43	75	2,284	2,263
Europe	1,507	2,321	511	690
America	1,349	1,728	1,555	1,742
Asia	1,672	1,979	657	743
Total	**4,571**	**6,103**	**5,007**	**5,438**

Parent Company

	Income from external customers	
	2009	**2008**
Europe	1,215	1,726
America	223	370
Asia	973	1,290
Total	**2,411**	**3,386**

NOTE 3 OTHER OPERATING INCOME

Group

MSEK	2009	2008
Exchange gains on receivables/liabilities relating to operations	21	56
Emission rights	40	38
Government subsidy, district heating	-	1
Capital gain from divestment of property at Höganäs	3	-
Capital gain from divestment of product area in Brazil	-	1
Capital gain from divestment of machinery in Brazil	2	-
Other	3	1
Total	**69**	**97**

Parent Company

MSEK	2009	2008
Exchange gains on receivables/liabilities relating to operations	10	20
Emission rights	40	38
Government subsidy, district heating	-	1
Capital gain from divestment of property at Höganäs	3	-
License fee, internal	-	4
Total	**53**	**63**

NOTE 4 OTHER OPERATING EXPENSES

	Group		Parent Company	
MSEK	**2009**	**2008**	**2009**	**2008**
Exchange losses on receivables/liabilities relating to operations	33	41	21	7
Excise duty, India	-	1	-	-
Income, currency hedges	29	-	-	-
Income, cash flow hedges	65	-	65	-
Other	3	2	-	-
Total	**130**	**44**	**86**	**7**

NOTE 5 EMPLOYEES AND PERSONNEL EXPENSES

Expenses for employee benefits

Group

MSEK	2009	2008
Salaries and benefits, etc.	563	592
Share-based payment	-	-2
Pension costs, defined benefit plans (see Note 25)	18	6
Pension costs, defined contribution plans	37	43
Social security expenses	181	198
Group total	**799**	**837**

Average no. of employees

	2009	Of which men, %	2008	Of which men, %
Parent Company in Sweden	*637*	*84*	*749*	*84*
Subsidiaries				
Belgium	133	90	176	88
Brazil	121	85	111	88
France	5	40	5	40
India	75	95	67	94
Italy	5	40	5	40
Japan	27	85	29	86
China	68	75	66	74
Korea	6	50	6	50
Spain	4	50	3	67
UK	24	79	27	74
Taiwan	7	43	7	43
Germany	10	50	11	45
USA	318	92	327	92
Total in subsidiaries	*803*	*87*	*840*	*87*
Group total	**1,440**	**85**	**1,589**	**85**

Gender division of management

	2009 Percentage women	2008 Percentage women
Parent Company		
The Board	10%	10%
Other senior executives	0%	0%
Group total		
The Board	1%	1%
Other senior executives	0%	0%

Salaries, benefits and social security expenses

	2009		2008	
MSEK	Salaries and benefits	Social security expenses	Salaries and benefits	Social security expenses
Parent Company	281	133	304	147
(of which pension costs)*		(41)		(34)

* Of Parent Company pension costs, MSEK 2.2 (2.1) relates to the Board of Directors, CEO and Senior Vice President. The Company's outstanding pension commitments to these executives is MSEK 6.0 (4.8).

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

	2009		2008	
MSEK	The Board, CEO & SVP	Other employees	The Board, CEO & SVP	Other employees
Parent Company in Sweden	11	271	11	293
(of which bonuses etc.)	(2)	(1)	(2)	(1)
Parent Company total	**11**	**271**	**11**	**293**
Subsidiaries				
Belgium	-	50	-	50
Brazil	1	21	2	25
France	-	3	-	3
India	1	8	2	7
Italy	-	4	-	3
Japan	4	19	3	16
China	-	8	-	7
Korea	1	2	1	2
Spain	2	1	1	1
UK	-	8	-	9
Taiwan	1	3	1	3
Germany	2	6	2	5
USA	3	134	3	143
Total in subsidiaries	**15**	**267**	**15**	**274**
(of which bonuses etc.)	(1)	(-)	(2)	(-)
Group total	**26**	**538**	**26**	**567**

* Of the salaries and benefits paid to other employees of the Group, MSEK 22.0 (17.9) relates to senior executives other than the Board of Directors, CEO and Senior Vice President.

Sickness absence, Parent Company

	2009	2008
Total sickness absence as a share of scheduled working-hours	3.3%	4.0%
Share of total sickness absence that is continuous sickness absence of 60 days or more	35.4%	44.7%
Sickness absence as a share of each group's scheduled working-hours		
Sickness absence by gender:		
Men	3.2%	4.0%
Women	3.7%	4.4%
Sickness absence by age group:		
Up to age 29	3.9%	4.6%
Age 30-49	2.7%	3.5%
Age 50 or above	4.1%	4.6%

NOTE 6 AUDITORS' FEES AND REIMBURSEMENT EXPENSES

	Group		Parent Company	
MSEK	**2009**	**2008**	**2009**	**2008**
KPMG				
Auditing	5.5	4.2	2.2	1.7
Other	1.6	1.4	1.5	0.5
Other auditors				
Auditing	-	-	-	-
Other	-	-	-	-

Auditing means auditing of annual accounts and accounting records and the Board of Directors' and Chief Executive Officer's administration, other tasks incumbent on the Company's auditors and advisory services or other assistance resulting from observations of such auditing or the performance of other similar duties. Anything else is classified as other.

NOTE 7 OPERATING EXPENSES BY COST TYPE

Group

Depreciation and cost of goods sold included in the Income Statement

MSEK	**Note**	**2009**	**2008**
Included in cost of goods sold			
Amortisation of intangible assets	11	8	7
Depreciation of property, plant and equipment	12	243	221
Impairment of property, plant and equipment		29	-
Other expenses for goods production/consumption		3,331	4,829
Included in selling expenses			
Amortisation of intangible assets	11	1	-
Depreciation of property, plant and equipment	12	8	8
Included in administration expenses			
Amortisation of intangible assets	11	6	1
Depreciation of property, plant and equipment	12	12	10
Personnel expenses	5		
Salaries and benefits		563	592
Share-based payment		-	-2
Social security expenses		181	198
Pension costs		55	49
Total		**799**	**837**

Research and development costs

The Consolidated Income Statement reports MSEK 100 (122) of research and development costs, of which amortisation comprises MSEK 12 (13). Direct production-related expenses in the form of amortisation on licences and capitalised development expenses of MSEK 8 (7) and selling expenses of MSEK 1 (0) respectively were charged to cost of goods sold.

NOTE 8 NET FINANCIAL INCOME /EXPENSE

Group

MSEK	2009	2008
Interest income on bank balances	5	9
Net exchange rate differences	-	4
Financial income	**5**	**13**
Interest expenses on loans measured at amortised cost	-21	-57
Other interest expenses	-8	-
Net exchange rate differences	-3	-
Financial expenses	**-32**	**-57**
Net financial income/expense	**-27**	**-44**

Parent Company

Interest income and similar items

MSEK	2009	2008
Interest income, Group companies	23	49
Interest income, other	1	6
Net exchange rate differences	47	-
Total	**71**	**55**

Interest expenses and similar items

MSEK	2009	2008
Interest expenses, other	-25	-50
Income, cash flow hedges	-18	-
Net exchange rate differences	-	-34
Total	**-43**	**-84**

Earnings on shares in Group companies

MSEK	2009	2008
Dividend	20	24
Total	**20**	**24**

NOTE 9 TAX

Reported in the Income Statement

Group

MSEK	2009	2008
Current tax expense (-)/tax income (+)		
Tax expense for the period	-134	-141
Adjustment of tax attributable to previous year	-1	-2
	-135	**-143**
Deferred tax expense (-)/tax income (+)		
Deferred tax on temporary differences	65	6
Deferred tax resulting from revised tax rates	-	15
Deferred tax income in taxable value of loss carry-forwards capitalised in the year	10	25
Deferred tax expense in utilisation of previously capitalised taxable value of loss carry-forwards	-1	-
Adjustment of deferred tax attributable to previous year	-4	8
	70	**54**
Total reported tax expense in the Group	**-65**	**-89**

Parent Company

MSEK	2009	2008
Current tax expense (-)/tax income (+)		
Tax expense for the period	-105	-102
Adjustment of tax attributable to previous year	-	-
	-105	-102
Deferred tax expense (-)/tax income (+)		
Deferred tax on temporary differences	-	3
	-	**3**
Total reported tax expense in Parent Company	**-105**	**-99**

CONT. NOTE 9 TAX

Reconciliation of effective tax

Group

MSEK	2009		2008	
Income before tax		271		483
Tax at prevailing tax rate for Parent Company	26.3%	-71	28.0%	-135
Effect of other tax rates for foreign subsidiaries	4.4%	-12	1.2%	-6
Non-deductible costs	1.1%	-3	0.4%	-2
Non-taxable income	-10.3%	28	-7.5%	36
Tax attributable to previous year	2.2%	-6	-1.0%	5
Effect of revised tax rates and revised tax regulations	0.0%	-	-3.1%	15
Standard interest on tax allocation reserve	0.4%	-1	0.4%	-2
Reported effective tax	**24.1%**	**-65**	**18.4%**	**-89**

Parent Company

MSEK	2009		2008	
Income before tax		415		367
Tax at prevailing tax rate for Parent Company	26.3%	-109	28.0%	-103
Non-deductible costs	0.2%	-1	0.3%	-1
Non-taxable income	-1.4%	6	-1.9%	7
Standard interest on tax allocation reserve	0.2%	-1	0.5%	-2
Reported effective tax	**25.3%**	**-105**	**26.9%**	**-99**

Tax items reported in other comprehensive income

Group

MSEK	2009	2008
Current tax attributable to hedging currency risk in foreign operation	-35	84
Deferred tax attributable to hedging currency risk in foreign operation	-23	63
Deferred tax attributable to cash flow hedges	-52	48
Deferred tax attributable to exchange rate difference	-21	21
Current tax attributable to exchange rate difference	21	-66
Total	**-110**	**150**

Tax items reported directly against shareholders' equity

Parent Company

MSEK	2009	2008
Current tax attributable to hedging currency risk in foreign operation	1	7
Current tax in Group contributions paid	20	29
Current tax in Group contributions received	-1	-1
Deferred tax attributable to hedging	-51	49
Total	**-31**	**84**

CONT. NOTE 9 TAX

Reported in the Statement of Financial Position

Reported deferred tax assets and liabilities

Group

	Deferred tax asset		Deferred tax liability		Net	
MSEK	**31 Dec. 2009**	**31 Dec. 2008**	**31 Dec. 2009**	**31 Dec. 2008**	**31 Dec. 2009**	**31 Dec. 2008**
Intangible assets	-	-	13	14	-13	-14
Property, plant and equipment	-	-	363	400	-363	-400
Financial assets	-	-	8	8	-8	-8
Inventories	11	17	-	-	11	17
Accounts receivable - trade	8	4	-	-	8	4
Pension provisions	8	-	-	-	8	-
Interest-bearing liabilities	-	11	10	-	-10	11
Financial instruments	-	51	3	-	-3	51
Tax allocation reserves	-	-	21	60	-21	-60
Other	-	34	3	-	-3	34
Loss carry-forwards	186	185	-	-	186	185
Tax assets/liabilities	213	302	421	482	-208	-180
Set-off	-124	-177	-124	-177	-	-
Tax assets/liabilities, net	**89**	**125**	**297**	**305**	**-208**	**-180**

Parent Company

	Deferred tax asset		Deferred tax liability		Net	
MSEK	**31 Dec. 2009**	**31 Dec. 2008**	**31 Dec. 2009**	**31 Dec. 2008**	**31 Dec. 2009**	**31 Dec. 2008**
Accounts receivable - trade	5	1	-	-	5	1
Financial instruments	-	51	3	-	-3	51
Other	-	2	-	-	-	2
Pension provisions	4	3	-	-	4	3
Tax assets/liabilities	9	57	3	-	6	57
Set-off	-3	-	-3	-	-	-
Tax assets/liabilities, net	**6**	**57**	**-**	**-**	**6**	**57**

Un-reported deferred tax assets

MSEK 33 (36) of deferred tax assets were not reported, MSEK 31 (33) relating to loss carry-forwards (state tax) in the US, and MSEK 2 (3) to temporary differences in China.

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

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**

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**	**0**	**-51**	**6**

NOTE 10 APPROPRIATIONS

Parent Company

MSEK	2009	2008
Difference between reported depreciation and depreciation according to plan:		
Buildings and land	1	2
Machinery and other technical installations	67	40
Tax allocation reserve, net	147	60
Total	**215**	**102**

NOTE 11 INTANGIBLE ASSETS

Impairment tests of intangible assets

Impairment tests are conducted yearly, and more often if there is a trigger event indicating permanent impairment. This test is based on acquired cash-generating units.

Recoverable amounts are determined on the basis of estimates of value in use. The estimates are based on an internal forecast over the next five years, based on the Company's yearly updated strategic plan, and then an assumed growth rate of between 3 and 10% per year depending on unit, for the following 15 years. Units on mature markets are forecast with lower growth rates, while growth rates on emerging markets like China, India and Brazil are in the upper segment. The expected future cash flows from these forecasts are the basis of the calculations. A need for capital investment is also considered. A weighted average cost of capital (WACC) is used for calculating the present value of between 8.3 and 13.6% before tax, the same as the previous year.

The estimate indicates that there is no impairment in any unit. A judgment has been made that no reasonable potential permanent changes in the key assumptions of impairment tests causing the estimated value in use to be less than carrying amounts.

Group

MSEK	Goodwill	Capitalised development expenses	Patents and similar rights	Advances, intangible assets	Total
Cumulative cost					
Opening balance, 1 January 2008	121	7	153	-	281
Internally developed assets	-	12	-	-	12
Other investments	-	-	25	42	67
Sales and disposals	-	-	-14	-	-14
Exchange rate differences for the year	13	-	8	-	21
Closing balance, 31 December 2008	134	19	172	42	367
Opening balance, 1 January 2009	134	19	172	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	38	241	22	430
Accumulated amortisation and impairment losses					
Opening balance, 1 January 2008	-33	-7	-64	-	-104
Amortisation for the year	-	-5	-9	-	-14
Exchange rate differences for the year	-1	-	-	-	-1
Closing balance, 31 December 2008	-34	-12	-73	-	-119
Opening balance, 1 January 2009	-34	-12	-73	-	-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	-20	-86	-	-139
Carrying amounts					
As of 1 January 2008	88	-	89	-	177
As of 31 December 2008	100	7	99	42	248
As of 1 January 2009	100	7	99	42	248
As of 31 December 2009	96	18	155	22	291

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 2008	-	-	42	-	42
Other investments	-	-	-	42	42
Sales and disposals	-	-	-14	-	-14
Closing balance, 31 December 2008	-	-	28	42	70
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
Accumulated amortisation					
Opening balance, 1 January 2008	-	-	-4	-	-4
Amortisation for the year	-	-	-2	-	-2
Closing balance, 31 December 2008	-	-	-6	-	-6
Opening balance, 1 January 2009	-	-	-6	-	-6
Amortisation for the year	-	-	-7	-	-7
Closing balance, 31 December 2009	-	-	-13	-	-13
Carrying amounts					
As of 1 January 2008	-	-	38	-	38
As of 31 December 2008	-	-	22	42	64
As of 1 January 2009	-	-	22	42	64
As of 31 December 2009	-	-	98	22	120

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

Parent Company

	Amortisation		Impairment	
MSEK	**2009**	**2008**	**2009**	**2008**
Cost of goods sold	1	1	-	-
Selling expenses	-	-	-	-
Administration expenses	6	1	-	-
Research and development costs	-	-	-	-
Total	**7**	**2**	**-**	**-**

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 2008	1,061	3,251	382	126	4,820
Investments for the year	4	37	6	318	365
Sales and disposals	-35	-5	-5	-	-45
Other changes	55	240	-111	-226	-42
Exchange rate differences for the year	91	198	16	7	312
Closing balance, 31 December 2008	1,176	3,721	288	225	5,410
Opening balance, 1 January 2009	1,176	3,721	288	225	5,410
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	1,174	3,777	283	194	5,428
Accumulated revaluation					
Opening balance, 1 January 2008	30	-	-	-	30
Revaluation for the year on revalued amount	-	-	-	-	-
Closing balance, 31 December 2008	30	-	-	-	30
Opening balance, 1 January 2009	30	-	-	-	30
Revaluation for the year on revalued amount	-	-	-	-	-
Closing balance, 31 December 2009	30	-	-	-	30
Accumulated depreciation					
Opening balance, 1 January 2008	-381	-1,821	-237	-	-2,439
Sales and disposals	4	-	-	-	4
Other changes	-	-78	78	-	-
Depreciation for the year	-31	-171	-44	-	-246
Exchange rate differences for the year	-28	-104	-3	-	-135
Closing balance, 31 December 2008	-436	-2,174	-206	-	-2,816
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
Accumulated impairment losses					
Opening balance, 1 January 2008	-6	-34	-	-	-40
Exchange rate differences for the year	-1	-11	-	-	-12
Closing balance, 31 December 2008	-7	-45	-	-	-52
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
Carrying amounts					
As of 1 January 2008	704	1,396	145	126	2,371
As of 31 December 2008	763	1,502	82	225	2,572
As of 1 January 2009	704	1,396	145	126	2,371
As of 31 December 2009	750	1,437	77	194	2,458

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 2008	548	1,966	275	93	2,882
Investments for the year	-	8	-	159	167
Other changes	10	175	-122	-105	-42
Closing balance, 31 December 2008	558	2,149	153	147	3,007
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
Accumulated revaluation					
Opening balance, 1 January 2008	30	-	-	-	30
Closing balance, 31 December 2008	30	-	-	-	30
Opening balance, 1 January 2009	30	-	-	-	30
Closing balance, 31 December 2009	30	-	-	-	30
Accumulated depreciation					
Opening balance, 1 January 2008	-241	-1,256	-175	-	-1,672
Depreciation for the year	-15	-94	-33	-	-142
Sales and disposals	-1	-80	80	-	-1
Closing balance, 31 December 2008	-257	-1,430	-128	-	-1,815
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
Accumulated impairment loss					
Opening balance, 1 January 2008	-	-	-	-	-
Impairment loss for the year	-	-	-	-	-
Sales and disposals	-	-	-	-	-
Closing balance, 31 December 2008	-	-	-	-	-
Opening balance, 1 January 2009	-	-	-	-	-
Impairment loss for the year	-	-29	-	-	-29
Sales and disposals	-	-	-	-	-
Closing balance, 31 December 2009	-	-29	-	-	-29
Carrying amounts					
As of 1 January 2008	337	710	100	93	1,240
As of 31 December 2008	331	719	25	147	1,222
As of 1 January 2009	331	719	25	147	1,222
As of 31 December 2009	319	648	29	168	1,164

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CONT. NOTE 12 PROPERTY, PLANT AND EQUIPMENT

Taxable values in Group /Parent Company	31 Dec. 2009	31 Dec. 2008
Taxable values, buildings (in Sweden)	323	326
Taxable values, land (in Sweden)	111	113
Carrying amounts, buildings	281	293
Carrying amounts, land	38	38

Depreciation and impairment is allocated to the following lines of the Income Statement

Parent Company

	Depreciation		Impairment	
MSEK	2009	2008	2009	2008
Cost of goods sold	129	130	29	-
Selling expenses	1	1	-	-
Administration expenses	4	4	-	-
Research and development costs	6	7	-	-
Total	**140**	**142**	**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.

The reported deferred income at year-end relating to government subsidies received corresponds to 88% of the cost for the period for the assets the subsidy is intended to cover. The prepaid subsidy is posted to income as the contract runs and is reported under other operating income.

A supplementary agreement was reached on increasing the delivery capacity of excess heat in 2008. Höganäs AB has made an investment to complete its expansion, which Höganäs Fjärrvärme AB will partly finance by paying a connection fee of MSEK 14. The investment was completed in 2009.

NOTE 13 OPERATING LEASES

Leases where the Company is lessee

Irrevocable lease payments amount to:

	Group		Parent Company	
MSEK	2009	2008	2009	2008
Within one year	12	10	4	1
Between one year and five years	28	19	14	1
Longer than five years	10	11	-	-
Total	**50**	**40**	**18**	**2**

Lease costs for assets held through operating leases are rented property, machinery and major computer and office equipment and are reported under operating expenses, and amount to MSEK 15 (9) for the Group and MSEK 5 (1) for the Parent Company. The constituent variable payments are not significant amounts.

Operating leases do not have indexation clauses or such terms as assign the right to extend or acquire the leased items. However, limitations apply to rights of disposal.

NOTE 14 GROUP COMPANIES

Holding in subsidiaries	Subsidiary registered office, country	Participating interest, %	
		31 Dec. 2009	31 Dec. 2008
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 India Ltd	Pune, India	-	2
Höganäs Belgium S.A.	Ath, Belgium	100	100
Höganäs (GB) Ltd	Kent, UK	-	100
Höganäs (GB) Ltd	Kent, UK	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 Ltd	Pune, India	100	96
Höganäs East Europe LLC	St. Petersburg, Russia	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) Ltd	Shanghai, China	100	100
North American Höganäs Holdings, Inc.	Hollsopple, US	100	100
North American Höganäs, Inc	Hollsopple, US	100	100
NAH Financial Services, Inc.	Wilmington, US	100	100
North American Höganäs High Alloys LLC	Hollsopple, US	100	100
NAH Finance Holding AB, 556662-4572	Höganäs, Sweden	100	100
KHTech Inc.	Wilmington, US	67	-
Höganäs Brasil Ltda	Mogi das Cruzes, Brazil	100	100

Parent Company

MSEK	31 Dec. 2009	31 Dec. 2008
Cumulative cost		
At beginning of year	996	996
Acquisition of Höganäs (GB) Ltd	315	-
Acquisition of Höganäs East Europe LLC	0	-
Capital contribution, Höganäs East Europe LLC	4	-
Closing balance, 31 Dec.	1,315	996
Cumulative impairment losses		
At beginning of year	-86	-86
Closing balance, 31 Dec.	-86	-86
Carrying amount in subsidiaries	**1,229**	**910**

CONT. NOTE 14 GROUP COMPANIES

Specification of Parent Company direct holdings of participations in subsidiaries

MSEK	No. of shares	Share of equity, %	Carrying amount 31 Dec. 2009	31 Dec. 2008
Höganäs Hamnbyggnads AB	4,240	94	1	1
Höganäs Sweden AB (former AB Micanäs)	24,000	100	2	2
Höganäs Saltglaserat AB	1,000	100	-	-
Höganäs HOGAP AB	1,100	100	-	-
Höganäs Belgium S.A.	20,000	100	53	53
Höganäs (GB) Ltd	50,000	100	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 Ltd	5,242,558	100	72	72
Höganäs East Europe LLC	-	100	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) Ltd	-	100	100	100
North American Höganäs Holdings, Inc.	1,000	100	580	580
Höganäs Brasil Ltda	18,170,000	100	82	82
Total			**1,229**	**910**

NOTE 15 RECEIVABLES FROM GROUP COMPANIES

Parent Company

MSEK	31 Dec. 2009	31 Dec. 2008
Cumulative cost		
Opening balance	1,476	1,185
Additional receivables	1	107
Settled receivables	-357	-52
Exchange rate differences for the year	-81	236
Closing balance, 31 Dec.	**1,039**	**1,476**

NOTE 16 LONG-TERM RECEIVABLES

Group

MSEK	31 Dec. 2009	31 Dec. 2008
Long-term receivables that are fixed assets		
Plan assets, pensions	34	32
Deposit	48	15
Investment loan granted	8	9
Other	2	2
Closing balance, 31 Dec.	**92**	**58**

Parent Company

MSEK	31 Dec. 2009	31 Dec. 2008
Long-term receivables		
Cumulative cost		
At beginning of year	-	12
Increase	2	-
Change in fair value	-	-12
Closing balance, 31 Dec.	**2**	**-**

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NOTE 17 INVENTORIES

Group

MSEK	31 Dec. 2009	31 Dec. 2008
Raw materials and consumables	365	568
Products in process	246	270
Finished goods and goods for resale	541	641
Total	**1,152**	**1,479**
Increase (+) / decrease (-) in obsolescence provision reported in:		
- Income Statement	-11	8
Total	**-11**	**8**

Parent Company

MSEK	31 Dec. 2009	31 Dec. 2008
Raw materials and consumables	210	341
Work in progress	140	107
Finished goods and goods for resale	145	102
Total	**495**	**550**
Increase (+)/decrease (-) of obsolescence provision reported in:		
- Income Statement	-8	2
Total	**-8**	**2**

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 MSEK 10 (16) intended to reduce credit risk to 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 23 (15). 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 2009 was MSEK 11 (4), which is 0.24% 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.

An age analysis of overdue but un-impaired accounts receivable at year-end is reported in the following table.

Group

Age analysis, overdue, un-impaired accounts receivable

	31 Dec. 2009		31 Dec. 2008	
MSEK	Carrying amount un-impaired receivable	Collateral	Carrying amount un-impaired receivable	Collateral
Non-overdue accounts receivable	571	51	455	43
Overdue accounts receivable > 0-30 days	109	14	193	35
Overdue accounts receivable > 30-90 days	16	1	68	8
Overdue accounts receivable > 90-180 days	10	-	11	1
Overdue accounts receivable > 180-360 days	1	1	-	-
Overdue receivables > 360 days	-	-	1	-
Total	**707**	**67**	**728**	**87**

Accounts receivable are reported considering the bad debt arising in the year. The provision for doubtful debts for the Group was MSEK 31 (14) at year-end. For the Parent Company, the provision for doubtful debt amounted to MSEK 18 (5).

Höganäs' concentration of credit risk in accounts receivable - trade at year-end is reported in the following table.

Concentration of credit risk in accounts receivable - trade

	Group 2009		
	No. of customers	% of total number of customers	% share of value
Exposure < MSEK 1	1,271	88	27
Exposure MSEK 1-10	179	12	73
Exposure > MSEK 50	-	-	-
Total	**1,450**	**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.

Höganäs' provisioning for doubtful debt at year-end is reported in the following table.

CONT. NOTE 18 ACCOUNTS RECEIVABLE - TRADE/CREDIT RISK

Provision account, bad debt

	Group		Parent Company	
MSEK	**2009**	**2008**	**2009**	**2008**
Opening balance	14	7	5	2
Reversal of previous impairment	-11	-3	-	-1
Impairment loss for the year	28	9	13	4
Translation difference	-	1	-	-
Closing balance	**31**	**14**	**18**	**5**

NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
MSEK	**31 Dec. 2009**	**31 Dec. 2008**	**31 Dec. 2009**	**31 Dec. 2008**
Prepaid interest expense	1	1	-	-
Prepaid insurance premiums	1	1	-	-
Emission rights sold	38	26	38	26
Insurance compensation	1	6	-	5
Other items	15	15	8	4
Total	**56**	**49**	**46**	**35**

NOTE 20 CASH AND CASH EQUIVALENTS

Group

MSEK	**31 Dec. 2009**	**31 Dec. 2008**
Cash and cash equivalents include the following components:		
Cash and bank balances	130	220
Total	**130**	**220**

Parent Company

MSEK	**31 Dec. 2009**	**31 Dec. 2008**
Cash and cash equivalents include the following components:		
Cash and bank balances	19	88
Total	**19**	**88**

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.

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NOTE 21 SHAREHOLDERS' EQUITY

Group

MSEK

Specification of provisions in shareholders' equity

Translation provision	**31 Dec. 2009**	**31 Dec. 2008**
Opening translation provision	51	-70
Translation differences for the year	-164	-8
Less hedging of currency risk in foreign operation	166	129
Closing translation provision	**53**	**51**

Hedging provision	**31 Dec. 2009**	**31 Dec. 2008**
Opening hedging provision	-143	-10
Cash flow hedges:		
Change in fair value for the year	308	-177
Transferred to net income	-112	-3
Tax attributable to hedges for the year	-51	47
Closing hedging provision	**2**	**-143**

Dissolved against Income Statement	**31 Dec. 2009**	**31 Dec. 2008**
Cost of goods sold	-47	69
Other operating expenses (-) / operating income (+)	-65	-72
Total	**-112**	**-3**

Total provisions	**31 Dec. 2009**	**31 Dec. 2008**
Opening provisions	-92	-80
Change in provisions for the year:		
Translation provision	2	121
Hedging provision	145	-133
Closing provisions	**55**	**-92**

Share capital and number of shares

	No. of shares		**Share capital**	
MSEK	**31 Dec. 2009**	**31 Dec. 2008**	**31 Dec. 2009**	**31 Dec. 2008**
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 5.00.

Holders of ordinary shares are entitled to dividends progressively, and the shareholding confers the following rights at the Annual General Meeting: ten votes per class A share and one vote per class B share. All shares possess equal rights to the 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. 2009**	**31 Dec. 2008**
Opening re-purchased treasury shares	26	27
Sales in the year	-	-1
Closing re-purchased treasury shares	**26**	**26**
Number		
Opening re-purchased treasury shares	293,800	298,300
Sales in the year	-	-4,500
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 26 April 2010.

MSEK	2009	2008
SEK 3.00 (3.00) per share	104	104
Reported dividend per share	3.00	3.00

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

Capital	31 Dec. 2009	31 Dec. 2008
Share capital	175	175
Translation provision	53	51
Hedging provision	2	-143
Profit brought forward including net income	2,423	2,321
Minority interests	-	2
Total	**2,653**	**2,406**

The Board's ambition is to maintain a balance between high returns, enabled through increased borrowings and returns, and the security offered by a prudent capital structure. The Group's objective is to attain a return on capital employed of 20%. Yield was 7.2% (12.8). Calculated as return on equity, the figures were 8.1% (15.2). To compare, the effective interest on the loan portfolio, based on average borrowings for the year, was 0.6% (2.8).

The Board's intention is to maintain annual dividends of approximately 30-50% of net income. The proposed dividends for the year of SEK 3.00 (3.00) correspond to 50% (26) of earnings. Dividends should correspond to Höganäs' earnings levels as well as future outlook, cash flow, investment need and other relevant factors. In the most recent five-year period, average dividends have been 49% of net income.

The Board of Directors' objective is to increase employee shareholdings in the Group. As a result, a performance-related option plan for the CEO and key staff of the Group was introduced in the year. Its scope and terms are stated in Note 25.

The Group's Board of Directors has a mandate from the AGM 2009 to re-purchase shares. The Group has re-purchased shares on several occasions, although no re-purchases occurred in 2009. The timing of these actions is partly determined by the share price. Re-purchased shares are mainly intended for the Group's stock option plans. There is no formal re-purchase plan, but buying and selling decisions on the Group's treasury shares are taken by the Board of Directors. For the AGM 2010, the Board proposes that the shareholders resolve on re-purchasing shares.

No further changes occurred to the Group's capital management in the year.

All the Parent Company's credit facilities are associated with capital requirements and are reviewed in Note 23. Otherwise, there are no stated external capital requirements applying to the Group.

Parent Company
Changes in Parent Company's shareholders' equity are stated in the Statement of Changes in Parent Company Shareholders' Equity on page 48.

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 valuation 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 posted to 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. 2009	31 Dec. 2008
Earnings per share before dilution (SEK)	5.92	11.31
Earnings per share after dilution (SEK)	5.92	11.31
Calculated here with the following components:		
Earnings attributable to Parent Company's shareholders	206	394
Weighted average number of shares, before dilution	34,805	34,803
Weighted average number of shares, after dilution	34,805	34,805

NOTE 22 UNTAXED RESERVES

Parent Company

MSEK	31 Dec. 2009	31 Dec. 2008
Accumulated depreciation and amortisation in addition to plan:		
Real estate used in business operations		
Opening balance, 1 January	90	92
Depreciation for the year in addition to plan	-1	-2
Closing balance, 31 December	89	90
Machinery and equipment		
Opening balance, 1 January	593	633
Depreciation for the year in addition to plan	-67	-40
Sales and disposals	-	-
Closing balance, 31 December	526	593
Tax allocation reserves		
Year of assessment 2004	-	147
Year of assessment 2009	80	80
Closing balance, 31 December	80	227
Total untaxed reserves	**695**	**910**

NOTE 23 INTEREST-BEARING LIABILITIES

Group

MSEK	31 Dec. 2009	31 Dec. 2008
Long-term liabilities		
Bank loans	1,111	1,880
Finance lease liabilities	19	21
Total	**1,130**	**1,901**
Current liabilities		
Overdraft facilities	135	42
Short-term portion of bank loans	-	2
Short-term portion of finance lease liabilities	2	3
Total	**137**	**47**

Terms and repayment dates

The existing bilateral credit facilities were arranged with 4 banks in 2005. At year-end, these amounted to MEUR 225 maturing in 2010. In addition, unconfirmed short-term credits amounted to MSEK 585. All credits are conditional on Höganäs AB's debt/equity ratio not exceeding 1.5. At year-end, this figure was 0.43 (0.72).

Finance lease liabilities

Finance lease liabilities become due for payment as follows:

Group

MSEK	Minimum lease payments 2009	Interest 2009	Principal 2009	Minimum lease payments 2008	Interest 2008	Principal 2008
Within one year	7	1	6	6	3	3
Between one and five years	22	2	20	10	3	7
Longer than five years	11	3	8	17	3	14

NOTE 24 OTHER LONG-TERM LIABILITIES

Group

MSEK	31 Dec. 2009	31 Dec. 2008
Other long-term liabilities		
Derivative instruments for hedging	12	11
Government subsidy, district heating facility	32	25
Excise duty, India	-	9
Other	12	22
Total	**56**	**67**
Liabilities that become due for payment after more than five years from the reporting date		
Government subsidy, district heating facility	24	18
Excise duty, India	-	3
Total	**24**	**21**

Parent Company

MSEK	31 Dec. 2009	31 Dec. 2008
Other long-term liabilities		
Derivative instruments for hedging	12	11
Government subsidy, district heating facility	32	24
Total	**44**	**35**
Liabilities that become due for payment after more than five years from the reporting date		
Government subsidy, district heating facility	24	18

NOTE 25 EMPLOYEE BENEFITS

Defined benefit plans

Group

MSEK	31 Dec. 2009	31 Dec. 2008
Present value of wholly or partly unit-linked commitments	372	362
Fair value of plan assets	-303	-270
Net wholly or partly unit-linked commitments	69	92
Present value of traditional assurance commitments	2	4
Present value of net commitments	71	96
Unreported actuarial gains (+) and losses (-)	-93	-112
Net reported for defined benefit plans (see below)	-22	-16
The net amount is reported in the following items in the Statement of Financial Position:		
Long-term receivables	-34	-32
Provisions for pensions	12	16
Net amount in Statement of Financial Position	**-22**	**-16**

Summary of defined benefit plans

Höganäs has defined benefit plans in Sweden, Belgium, the US, Germany, Taiwan, Korea, 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. 2009	31 Dec. 2008
Net commitment for defined benefit plans at beginning of year	-16	-15
Benefits paid	-14	-4
Deposited contributions	-9	-5
Expense reported in Income Statement	18	6
Exchange rate differences	-1	2
Net commitment for defined benefit plans at year-end	**-22**	**-16**

CONT. NOTE 25 EMPLOYEE BENEFITS

Expense reported in the Income Statement

Group

MSEK	2009	2008
Expenses for service in current period	6	7
Reported actuarial losses	4	-
Interest expense on the commitment	16	16
Expenses for service in previous period	7	-
Expected yield on plan assets	-15	-17
Total net expenses in Income Statement	**18**	**6**

The expense is reported in the following Income Statement lines:

Group

MSEK	2009	2008
Cost of goods sold	6	3
Selling expenses	4	1
Administrative expenses	5	2
Research and development costs	3	-
Total net expense in Income Statement	**18**	**6**
Actual yield on plan assets	35	-30

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

Group

	2009	2008
Discount rate as of 31 Dec.	4.4%	4.6%
Expected yield on plan assets as of 31 Dec.	5.8%	5.8%
Future salary increase	3.0%	3.0%
Future increase of pensions	2.0%	2.6%

Change in commitment for defined benefit plan

Group

MSEK	31 Dec. 2009	31 Dec. 2008
Commitments for defined benefit plans at beginning of year	366	333
Expense for service in current year	6	7
Interest expense	16	16
Expense for service in previous periods	7	-
Actuarial gain (-) or loss (+)	9	14
Effect of reductions and settlements	-2	-
Disbursed pensions	-21	-19
Exchange rate differences	-7	15
Commitments for defined benefit plans at end of year	**374**	**366**

Change of fair value of plan assets

Group

MSEK	31 Dec. 2009	31 Dec. 2008
Fair value of plan assets at beginning of year	270	309
Expected yield on plan assets	15	17
Deposited contributions	7	5
Actuarial gain (-) or loss (+)	23	-57
Disbursed pensions	-7	-15
Exchange rate differences	-5	11
Fair value of plan assets at end of year	**303**	**270**

CONT. NOTE 25 EMPLOYEE BENEFITS

Historical information

Group

MSEK	2009	2008	2007	2006	2005
Present value of defined benefit commitments	-374	-366	-333	-315	-331
Fair value of plan assets	303	270	309	319	311
Surplus/deficit in plan	**-71**	**-96**	**-24**	**4**	**-20**

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. 2009	31 Dec. 2008
Present value of commitment, unit-linked pension plans	219	224
Fair value of plan assets (pension fund)	-224	-198
Surplus in pension fund (-)/net commitment (+)	-5	26
Present value of commitment, traditional assurance pension plans	5	-
Un-reported surplus in pension fund	5	-
Reported net liability	**5**	**26**

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	2009	2008
Expense for defined contribution plans	37	43

Parent Company

MSEK	2009	2008
Expense for defined contribution plans	18	18

REMUNERATION AND OTHER BENEFITS TO SENIOR EXECUTIVES, 2009

Principles for remuneration to senior executives

The Board of Directors has an internal Remuneration Committee comprising Chairman of the Board Anders G Carlberg, Jenny Lindén Urnes and Bengt Kjell. This Committee considers benefits and other employment terms for the Chief Executive Officer and states guidelines for other senior executives.

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.

Benefits

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

Pensions

Höganäs' pension agreements with senior executives for pensions from age 65 onwards are defined contribution. This means that Höganäs does not guarantee senior executives 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 encompassed 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.

MSEK	Basic salary, Directors' fees	Performance-related pay	Other benefits	Pension expenses	Share-based payment	Total	Pension commitments
Chairman of the Board, Anders G Carlberg	0.3	-	-	-	-	0.3	-
Former Chairman, 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	-	8.2	5.7
Senior Vice President , Ulf Holmqvist	1.7	0.4	0.1	0.4	-	2.6	0.3
Other senior executives (10 people)	18.9	3.1	1.9	4.1	-	28.0	1.0
Total	**27.5**	**5.0**	**2.2**	**6.2**	**-**	**40.9**	**7.0**

The Board of Directors, Chief Executive Officer and Senior Vice President received remuneration from the Parent Company exclusively.

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

CONT. NOTE 25 EMPLOYEE BENEFITS

Shareholdings
Senior executives' shareholdings are stated on pages 28 - 29 and 32.

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 14 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. The minimum term of the staff stock options is two years, and the maximum is 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. 250,000 options are intended for granting 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	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Carrying amount at beginning of period	16	25	19	-	-	14	1	4	36	43
Provisions in the period	-	-	-	19	34	-	8	-	42	19
Amount utilised in the period	-	-9	-19	-	-	-14	-	-3	-19	-26
Carrying amount at end of period	**16**	**16**	**-**	**19**	**34**	**-**	**9**	**1**	**59**	**36**
Of which total long-term portion of provisions	16	16	-	-	-	-	9	1	25	17
Of which total short-term portion of provisions	-	-	-	19	34	-	-	-	34	19

Parent Company

	Reinstatement expenses		Adapting personnel		Emission rights		Other provisions		Total	
MSEK	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Carrying amount at beginning of period	16	25	18	-	-	14	-	-	34	39
Provisions in the period	-	-	-	18	34	-	-	-	34	18
Amount utilised in the period	-	-9	-18	-	-	-14	-	-	-18	-23
Carrying amount at end of period	**16**	**16**	**-**	**18**	**34**	**-**	**-**	**-**	**50**	**34**
Of which total long-term portion of provisions	16	16	-	-	-	-	-	-	16	16
Of which total short-term portion of provisions	-	-	-	18	34	-	-	-	34	18

Payments

Group

MSEK	31 Dec. 2009
Amount by which the provision is expected to be paid after more than twelve months.	25

Parent Company

Amount by which the provision is expected to be paid after more than twelve months.	16

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 remains at MSEK 16. 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.

Adapting personnel
The opening provision of MSEK 19 the Group was used for personnel costs relating to personnel reductions in the year.

Emission rights
Emission rights for CO_2 were received at the beginning of the year at a market value of MSEK 54. Utilised rights are reported at cost, as cost of goods sold and provisions. More information in accounting principles (s) (vii) on page 55.

Other provisions
Legal disputes relate to current legal proceedings regarding the previous owner in Brazil of MSEK 6, and regarding the working environment MSEK 3 (1).

NOTE 27 LIABILITIES TO CREDIT INSTITUTIONS

Parent Company		
MSEK	31 Dec. 2009	31 Dec. 2008
Long-term liabilities		
Bank loans	1,100	1,796
Current liabilities		
Overdraft facility	79	-
Liabilities that become due for payment more than five years after the reporting date		
Bank loans	-	-

Approved overdraft facilities amount to MSEK 250 (250).

NOTE 28 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
MSEK	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
Vacation pay liability	75	75	57	58
Social security expenses	34	39	31	43
Invoiced, not delivered	4	6	4	6
Bonuses to customers	25	23	24	22
Exchange rate differences on receivables and liabilities	-	15	-	15
Invoices not received	18	14	8	4
Staff bonuses	11	9	7	4
Interest	-	6	-	5
Other items	52	36	19	11
Total	**219**	**223**	**150**	**168**

NOTE 29 PLEDGED ASSETS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	Group		Parent Company	
MSEK	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
Pledged assets				
In the form of pledged assets for own liabilities and provisions				
Property mortgages	22	24	10	10
Assets with ownership reservations	25	29	-	-
Total pledged assets	**47**	**53**	**10**	**10**
Contingent liabilities				
Pension commitments	17	17	17	17
Guarantees in favour of subsidiaries	-	-	258	279
Guarantees, other	64	143	62	142
Total contingent liabilities	**81**	**160**	**337**	**438**

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

NOTE 30 RATES OF EXCHANGE

		Year-end rates of exchange		Average rates of exchange	
Country	**Local currency**	**31 Dec. 2009**	**31 Dec. 2008**	**Jan.-Dec. 2009**	**Jan.-Dec. 2008**
Brazil	BRL	4.1375	3.2490	3.8444	3.6151
China	CNY	1.0600	1.1300	1.1192	0.9464
Denmark	DKK*	139.1500	146.8000	142.6426	128.8381
EMU	EUR	10.3530	10.9355	10.6213	9.6055
India	INR*	15.4400	16.0000	15.7794	15.1192
Japan	JPY*	7.8450	8.6000	8.1784	6.4023
Korea	KRW*	0.6200	0.6125	0.5994	0.6020
Norway	NOK*	124.3000	110.3500	121.6225	117.0538
Russia	RUB*	23.8600	26.3200	24.0632	26.4225
Taiwan	TWD	0.2247	0.2366	0.2323	0.2096
UK	GBP	11.4850	11.2475	11.9260	12.0912
US	USD	7.2125	7.7525	7.6457	6.5808

* 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 page 22. 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 Höganäs' sales were to countries outside Sweden in 2009. Total net revenues in foreign currencies in 2009 were some MSEK 4,567 (5,958). The largest flow currencies were EUR, JPY and USD.

The objective of Höganäs' currency hedging is to hedge a determined portion of the Group's net foreign currency exposure in the short and medium term. The purpose of hedging currency exposure is to even out profit fluctuations. The Consolidated Income Statement includes exchange rate differences of MSEK -13 (105) in operating income. No exchange rate differences are included in net financial income/expense (previous year: 0).

At year-end 2009 the Group had the following currency hedges for expected payment flows in EUR, JPY and USD for 2010. 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 reported in shareholders' equity. When the contract is realised, the accumulated value change is reported to the Income Statement. The effect of currency derivatives on operating income in 2009 was MSEK -94 (-73).

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

	EUR/SEK		USD/SEK		JPY/SEK	
Outstanding hedges of currency flows, 31 December 2009	**Volume[1]**	**Rate of exchange[2]**	**Volume[1]**	**Rate of exchange[2]**	**Volume[1]**	**Rate of exchange[2]**
Q1, 2010	13.20	10.60	12.75	7.44	450	0.089
Q2, 2010	13.20	10.60	12.75	7.41	450	0.090
Q3, 2010	13.20	10.48	12.75	7.15	450	0.078
Q4, 2010	13.45	10.33	12.75	7.04	450	0.079
Total	**53.1**	**10.5**	**51**	**7.26**	**1,800**	**0.084**
	(67.8)	(9.27)	(5.8)	(7.45)	(2,340)	(0.078)
Rate of exchange ruling on reporting date, 31 December 2009		10.353		7.2125		0.07845
Value change (MSEK) [3] reported in hedging provision, 31 December 2009		9		3		9

[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.

CONT. NOTE 31 FINANCIAL RISKS AND FINANCE POLICY

In addition to the above hedging, Höganäs has currency hedging for the net of outstanding accounts receivable - trade and accounts payable - trade denominated in the following currencies: EUR/SEK, JPY/SEK, USD/SEK , USD/EUR, GBP/EUR, JPY/EUR, USD/GBP and EUR/GBP. The Finance Policy states that this exposure should be 100% hedged. Contract terms are 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.

(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 100% hedged. The hedging level stipulated in the policy was observed in the year. Hedging can be effected through currency forwards or external funding of the corresponding amount. Currency forwards and external funding were used as hedging instruments in the year. The hedging provision for net investments in subsidiaries was MSEK 43 (40) at year-end. The fair value of outstanding currency forwards for net investments in subsidiaries was MSEK 5 (-1) at year-end. Translation differences are reported in Note 21 Shareholders' Equity.

The following table illustrates the net assets in lending and shareholders' equity as of 31 December 2009. They are 100% hedged.

Currency, MSEK	2009	2008
USD	1,258	1,048
EUR	352	593
JPY	280	193
GBP	57	71
Total	**1,947**	**1,905**

(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 1,267 (1,947) and the average fixed interest period on these liabilities was some 0.91 (0.6) years including interest swaps and some 0.1 (0.1) years excluding interest swaps.

Short-term investments and cash and cash equivalents were MSEK 130 (220) 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. The following table illustrates the maturities of fixed interest periods in each currency, considering interest swaps at year-end 2009.

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

31 Dec. 2008	Total[1]	2009	2010	2011	2012	2013
Currency						
EUR	54	29	-	-	25	-
GBP	6	6	-	-	-	-
USD	124	89	15	20	-	-
JPY	2,095	1,095	-	-	1,000	-

[1] Amounts expressed in millions of local currency.

The company had interest swaps with a nominal value of MSEK 842 (630) on the reporting date, which have been reported against shareholders' equity. On the reporting date, the fair value of the swaps was MSEK -12 (-11). Effective interest at year-end was 0.58% (2.83).

(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 within shareholders' equity. An overview of how Höganäs manages energy and raw materials risk is provided in the risk management section on page 20.

(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 302 (342) in 2009.

Exclusively, Höganäs had hedges for electricity as in the following table at the reporting date.

Outstanding hedges on electricity, 31 December 2009

	Electricity	
	Volume[1]	**Price[2]**
Maturing 2010	192	479
Maturing 2011	97	410
Total	**289**	
Spot price, 31 December 2009		432
Value change (MSEK) [3] reported in hedging provision, 31 December 2009		-4,5

[1] Volume is expressed in GWh

[2] Average forward price in SEK

[3] Change in fair value reported in the hedging provision in shareholders' equity on cash flow hedges, where hedge accounting is applied. This item relates to value changes on derivative instruments relating to future energy purchases.

CONT. NOTE 31 FINANCIAL RISKS AND FINANCE POLICY

(ii) Copper, nickel and molybdenum
Metal derivatives are used to alleviate exposure to changes in raw materials prices. At present, the price risk of nickel, copper and molybdenum is hedged.

Hedging is effected with standard financial derivatives quoted daily on the London Metal Exchange (LME). For metals not quoted on the LME, price hedging can be effected through fixed-fee contracts with suppliers.

Outstanding hedges on copper, nickel and molybdenum, 31 December 2009

	Copper		Nickel		Molybdenum	
	Volume [1]	Price [2]	Volume [1]	Price [2]	Volume [1]	Price [2]
January 2010	125	6,938	462	17,019	40	27,508
February 2010	0		102	18,284	0	
Total	**125**	**6,938**	**564**	**17,248**	**40**	**27,508**
Spot price, 31 December 2009		7,346		18,480		26,014
Value change (MSEK) [3] reported in hedging provision, 31 December 2009		-0.4		-5		0.7

[1] Volume is expressed in tons
[2] Average forward price in USD
[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 changes in raw materials prices.

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

Current confirmed credit facilities were arranged by a syndicate of four banks in 2005, and this facility matures in June 2010. At year-end these facilities amounted to MEUR 225, of which MEUR 106 (159) had been utilised. Additionally, unconfirmed short-term credits were MSEK 585, of which MSEK 127 (0) had been utilised at year-end. All credits are conditional on Höganäs' debt/equity ratio not exceeding 1.5. At year-end this ratio was 0.43 (0.72).

At year-end, consolidated financial liabilities were MSEK 1,744 (2,541) and the maturity structure of borrowings is as stated in the following table:

	2009			2008		
Maturity structure Financial liabilities	< 1 yr.	1-5 yr.	> 5 yr.	< 1 yr.	1-5 yr.	> 5 yr.
Credit facilities	-	1,111	-	-	1,796	-
Other credits	156	-	-	46	105	-
Accounts payable - trade	441	-	-	401	-	-
Derivatives	24	12	-	182	11	-
Total	**621**	**1,123**	**-**	**629**	**1,912**	**-**

The Parent Company operates as a financier for its subsidiaries. There are local overdraft facilities in place for the subsidiaries, which have been approved by the Parent Company.

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

To some extent, Höganäs' credit risk for customers is limited through sales being conducted in a high number of countries, to a wide range of customers, thus achieving risk diversification. There is a credit insurance of MUSD 10 (16) intended to reduce the credit risk of customers in the US. Moreover, Höganäs uses export letters of credit for sales on certain markets.

At year-end, the single largest credit exposure was MSEK 23 (15). The Group's Credit Policy stipulates that credit checks precede all sales to new customers, to further limit credit risk. Bad debt for 2009 was MSEK 11 (4) of consolidated net sales.

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

Primarily, surplus liquidity should be used to amortise interest bearing liabilities. Secondly, the Finance function will invest the Group's surplus liquidity.

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

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

Credit risk exposure	2009	2008
Accounts receivable - trade	707	728
Cash and bank balances	130	220
Derivatives	42	1
Total	**879**	**949**

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

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

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

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

CONT. **NOTE 31** FINANCIAL RISKS AND FINANCE POLICY

	Financial assets reported at fair value via the Income Statement[1]		Investments held to maturity		Derivatives used in hedge accounting		Loans receivable and accounts receivable		Financial liabilities reported at accrued cost		Total carrying amount		Total fair value	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Long-term receivables	-	-	-	-	1	-	-	-	-	-	1	-	1	-
Accounts receivable - trade	-	-	-	-	-	-	707	728	-	-	707	728	707	728
Other receivables	3		-	-	38	1	-	-	-	-	41	1	41	1
Cash and cash equivalents	-	-	-	45	-	-	130	175	-	-	130	220	130	220
Total	**3**	**-**	**-**	**45**	**39**	**1**	**837**	**903**	**-**	**-**	**879**	**949**	**879**	**949**
Long-term interest-bearing liabilities	-	-	-	-	-	-	-	-	1,130	1,901	1,130	1,901	1,131	1,903
Other long-term liabilities	-	-	-	-	12	11	-	-	-	-	12	11	12	11
Current interest-bearing liabilities	-	-	-	-	-	-	-	-	137	46	137	46	137	46
Accounts payable	-	-	-	-	-	-	-	-	441	401	441	401	441	401
Other liabilities	2	13	-	-	22	182	-	-	-	-	24	195	24	195
Total	**2**	**13**	**-**	**-**	**34**	**193**	**-**	**-**	**1,708**	**2,348**	**1,744**	**2,554**	**1,745**	**2,556**

[1] Fair value option is not applied

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 new 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 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.

Group, 2009 and 2008

	Tier 1		Tier 2		Tier 3	
	2009	2008	2009	2008	2009	2008
Long-term receivables	-	-	1	-	-	-
Accounts receivable - trade	-	-	-	-		
Other receivables	3	-	38	1	-	-
Cash and cash equivalents	-	-	-	-	-	-
Total	**3**	**-**	**39**	**1**		
Long-term interest-bearing liabilities	-	-	-	-	-	-
Other long-term liabilities	-	-	12	11	-	-
Current interest-bearing liabilities	-	-	-	-	-	-
Accounts payable - trade	-	-	-	-	-	-
Other liabilities	11	13	13	182	-	-
Total	**11**	**13**	**25**	**193**	**-**	**-**

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.

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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 executives 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 parties	Purchases of goods from related parties	Other (interest, dividend)	Liabilities to related parties as of 31 Dec.	Receivable from related parties as of 31 Dec.
Höganäs Hamnbyggnads AB	2009	-	2	-	1	13
	2008	-	2	-	2	10
Höganäs Sweden AB	2009	-	-	-	3	-
	2008	-	-	-	2	-
Höganäs HOGAP AB	2009	-	-	-	2	-
	2008	-	-	-	-	2
Höganäs Belgium S.A.	2009	4	5	3	222	4
	2008	8	10	12	1	217
Höganäs (GB) Ltd	2009	-	-	-	50	1
	2008	2	-	-	13	-
Höganäs Japan K.K.	2009	298	-	1	-	75
	2008	499	-	1	1	162
Höganäs France S.A.S.	2009	-	-	-	1	-
	2008	-	-	1	1	-
Höganäs GmbH	2009	-	-	-	-	-
	2008	441	-	20	1	18
Höganäs Italia S.r.l.	2009	-	-	-	1	-
	2008	-	-	-	-	-
Höganäs India Ltd	2009	28	14	-	1	3
	2008	45	18	-	-	1
Höganäs Ibérica S.A.	2009	-	-	2	-	-
	2008	-	-	3	1	-
Höganäs Taiwan Ltd	2009	26	-	13	-	1
	2008	21	-	-	-	-
Höganäs Korea Ltd	2009	7	-	6	-	-
	2008	11	-	-	-	1
Höganäs (China) Ltd	2009	108	-	-	-	33
	2008	101	-	-	1	14
NAH Holdings, Inc.	2009	-	-	-	-	788
	2008	-	-	31	-	960
North American Höganäs, Inc.	2009	138	36	12	14	23
	2008	212	52	-	4	12
NAH Finance Holding AB	2009	-	-	-	619	-
	2008	-	-	-	543	-
Höganäs Brasil Ltda	2009	70	-	6	-	196
	2008	92	-	6	-	209
TOTAL	**2009**	**679**	**57**	**43**	**914**	**1,137**
	2008	**1,432**	**82**	**74**	**570**	**1,606**

The Parent Company has guarantees in favour of subsidiaries of MSEK 258 (279). The Parent Company has received dividends from subsidiaries of MSEK 20 (24).

NOTE 33 SIGNIFICANT ESTIMATES AND JUDGMENTS

Carrying amounts are based partly on judgments and estimates. This applies primarily to impairment tests on goodwill (Note 11) and property, plant and equipment (Note 12) as well as defined benefit pension commitments (Note 25).

These values are affected if judgments and estimates change regarding applied discount rates, pricing, expenses and the demand for those products the cash flow forecasts are based on. Deferred tax assets of MSEK 186 net have been reported in the Group on the basis that it is likely that they will be utilisable and imply reduced tax payments in the future.

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. The Parent Company's class B shares are quoted on the Mid Cap list on Nasdaq OMX Stockholm Exchange. The address of the head office is Höganäs AB, SE-263 83 Höganäs, Sweden.

The consolidated accounts for 2009 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, the consolidated accounts, accounting records and the administration of the Board of Directors and the Chief Executive Officer of Höganäs AB (publ) for the year 2009. The annual accounts of the Company are included in the printed version of this document on pages 36-87. 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, the consolidated accounts and 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, 15 March 2010
KPMG AB

Alf Svensson
Authorised Public Accountant

Five-year overview and quarterly data

FIVE-YEAR OVERVIEW

MSEK	2005	2006	2007	2008	2009
Net sales	4,594	5,123	5,838	6,103	4,571
Operating income	461	602	607	527	298
Net financial income and expenses	-53	-77	-45	-44	-27
Income before tax	408	525	562	483	271
Net income	290	402	431	394	206
Operating margin, %	10.0	11.8	10.4	8.6	6.5
Net margin, %	8.9	10.2	9.6	7.9	5.9
Total assets	5,253	5,099	5,191	5,642	5,118
Shareholders' equity	2,549	2,625	2,766	2,406	2,653
Capital employed	4,058	3,736	3,880	4,370	3,932
Return on capital employed, %	12.0	15.5	15.9	12.8	7.2
Return on equity, %	12.2	15.5	16.0	15.2	8.1
Equity/assets ratio, %	48.5	51.5	53.3	42.6	51.8
Net indebtedness	1,387	1,032	903	1,743	1,149
Debt/equity ratio, multiple	0.54	0.39	0.33	0.72	0.43
Risk capital/assets, %	56.5	59.9	61.0	48.0	57.6
Interest coverage ratio, multiple	8.7	7.8	13.5	12.0	11.0
Rate of capital turnover, multiple	1.13	1.32	1.53	1.48	1.10
Operating cash flow	178	429	314	217	629
Cash flow after investments	189	429	314	220	626
Investments	260	219	176	375	265
Average number of employees	1,572	1,579	1,563	1,589	1,440
Net sales per employee	2.92	3.29	3.67	3.84	3.17

QUARTERLY DATA MSEK	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Net sales	1,583	1,592	1,575	1,353	916	1,098	1,193	1,364
Operating income	196	232	131	-32	-111	54	142	213
Operating margin, %	12.4	14.6	8.3	-2.4	-12.1	4.9	11.9	15.6
Income before tax	191	227	112	-47	-119	49	135	206
Net income	145	170	83	-4	-90	37	102	157
Earnings per share, SEK	4.15	4.91	2.38	-0.13	-2.58	1.05	2.94	4.50

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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