

The Board of Directors' proposal regarding a performance-related employee stock option plan

Background

The Annual General Meeting (AGM) 2007 resolved to approve a performance-related employee stock option plan for approximately 45 key employees of the group comprising a total of 250,000 employee stock options. The apportionment within this plan will be effected in March 2008 and onwards and will, taking into account achieved targets, include 111,580 employee stock options.

At the AGM 2007 it was declared that the Board of Directors intended to submit proposals on employee stock option plans at the AGMs 2008 and 2009 pursuant to corresponding principles as the employee stock option plan decided at the AGM 2007. Accordingly, the Board of Directors is proposing a corresponding scheme also for 2008. To be able to consummate the proposed scheme and to carry out the employee stock option plan decided at the AGM 2007, the Board is proposing that the AGM resolves in accordance with items a)-d) below.

Motives for the proposal

The Board of Directors finds it important and in the interests of all shareholders that the group's key employees have a long-term interest in a positive increase of the company's share price, and accordingly, proposes that the AGM approves the following performance-related stock option plan for key employees.

The objective of the incentive scheme is to create favourable conditions to achieve financial success for the company and the group. By offering employees the opportunity of future shareholding in the company, their interest in, and commitment to, the company's operations would be enhanced, and the concurrence between the shareholders' and the employees' interests, would also be enhanced. Moreover, it will facilitate for the group to attract and retain skilled employees on a competitive labour market.

The proposal has been processed and resolved by the Board of Directors and discussed with a number of the company's major shareholders. The Chief Executive Officer did not participate in the Board's consideration and decision on the proposal.

The Board of Directors, or a committee established by the Board for the purpose, will be responsible for the detailed design and management of the employee stock option plan, within the framework of the following main terms and guidelines.

A) Introduction of a performance-related employee stock option plan 2008

The Board of Directors proposes that the AGM approves the scope and main principles for the performance-related employee stock option plan for 2008 regarding class B shares of the company pursuant to the below.

Scope and main principles

Allotment

The Board of Directors shall have the right to resolve on the allotment of employee stock options, to provide approximately 45 key employees of the group with the opportunity to acquire a total maximum of 250,000 class B Höganäs shares.

The allotment is dependent on the development of the group in 2008 against predetermined and weighted target figures of the value factors return on capital employed, volume growth and earnings per share as determined by the Board. If the target figure for a value factor determined by the Board is exceeded by 5%, the allotment shall be 100% of the maximum number of shares attributable to this value factor within the scope of the determined weighting, while no allotment for a value factor occurs if the actual figure is 5% below the determined target figure, and in the intervening interval a *pro rata* allotment is effected.

The allotment of employee stock options is maximised to the following numbers per person within the various key groups:

Category 1 — Chief Executive Officer — 25,000 employee stock options

Category 2 — other senior executives (approx. 15) — 9,000 employee stock options

Category 3 — key employees (approx. 30) — 3,000 employee stock options.

The Board of Directors will decide on the individuals in the aforementioned groups based on position, qualifications and individual performance. The allotment of employee stock options will be effected from March 2009 and onwards.

If the company has received issued employee stock options in return due to circumstances such as an employee terminating his/her employment, the Board of Directors shall still have the right to issue such options to employees pursuant to the above principles. However, the stated term and total allotment may not under any circumstances be exceeded.

The Board of Directors shall have the right to introduce an alternative incentive scheme for key employee in such countries where allotment of employee stock options is not appropriate. As far as practically possible, such alternative incentive scheme shall be designed on the corresponding terms as the employee stock option plan.

Term of employee stock options

The maximum term of employee stock options will be four years from the time of allotment. The employee stock options are not transferable and they are conditioned upon continued employment, and that the option-holder has not been, nor has himself/herself, issued notice of resignation.

Exercise periods

The employee stock options can be exercised to buy shares as follows:

50 per cent at the earliest two years after allotment

all at the earliest three years after allotment.

Alternatively, the options can be exercised for cash redemption if the holder demands it, whereby the holder receives an amount corresponding to the difference between the share price at exercise and the exercise price.

Exercise price

The exercise price shall be determined to an amount corresponding to 120 per cent of the average volume-weighted price paid for class B shares on the Stockholm Stock Exchange during a period of 10 trading days immediately after 14 May 2008.

Conversion

If during the term of the employee stock options, the AGM resolves on items such as an increase or reduction of the outstanding number of shares, or dividends exceeding the company's dividend policy, conversion to retain the value of the employee stock options can be executed. Any decision on conversion shall be made by the company's Board of Directors.

Theoretical value for the recipient

A theoretical value of an employee stock option has been calculated using the Black & Scholes option valuation model. As basis for the calculation, parameters including a share price of SEK 132,70 and an expected volatility of 26% have been applied. The theoretical value is estimated at SEK 12 per employee stock option or a cumulative maximum of MSEK 3 for the whole incentive scheme.

Delivery of shares and costs

The employee stock options entail the right to acquire existing shares. To ensure the delivery of shares and as a hedge against the potential cash flow effect of social security costs relating to the employee stock option plan, the Board intends to conduct hedging through equity swaps with third parties, and/or conditional upon the AGM's resolution pursuant to items b)-c) below, acquisition of own shares that can be transferred to employees under the auspices of the performance-related employee stock option plan.

In addition to the costs to hedge the company's commitment stated above, employee stock options may imply expenses for the group in the form of social security costs. These social security costs will be expensed during the accrual period of options, based on the value changes of the employee stock options.

In addition to the aforementioned costs, the allotment of employee stock options may imply accounting effects pursuant to IFRS 2. The employee stock options shall be expensed as personnel costs (excluding social security costs) during their accrual period and accounted directly against shareholders' equity. The amount accounted shall be subject to continual review during the accrual period of employee stock options.

The performance-related incentive scheme 2008 is only expected to imply limited dilution effects for the company and the shareholders due to the scope of the scheme and that shares already issued shall be used for delivery within the employee stock option plan. With the above assumptions, the plan will result in the delivery of a maximum total of 330,000 class B shares, corresponding to approximately 0.9 percent of the total number of shares and approximately 0.8 percent of the number of votes in the company. This also includes the shares intended for sale to cover social security costs. As per 31 December 2007, the number of shares comprised by previously approved performance-related stock option plans, including shares intended for sale to cover social security costs, amounted to 330,000 class B shares, corresponding to approximately 0.9 percent of the total number of shares and approximately 0.8 percent of the number of votes in the company.

B) Acquisition of own shares

In the period until the next AGM, the Board of Directors is authorized to decide on the acquisition of the company's shares as follows:

1. Acquisitions are permitted on the Stockholm Stock Exchange;
2. Acquisitions may be made on one or more occasions before the next AGM;
3. Acquisitions are subject to a maximum number of class B shares, so that after each acquisition, the company will hold no more than 10 per cent of the total number of shares in the company;
4. Acquisitions on the Stockholm Stock Exchange may be made at a price per share within the quoted price interval from time to time;
5. Payment for shares shall be made in cash;
6. The Board of Directors shall have the right to set other conditions for acquisitions.

The purpose of this authorization is to give the Board of Directors the possibility to satisfy the company's commitment pursuant to the terms of the company's performance-related employee stock option plan and enable hedging against the potential cash flow effect of social security costs resulting from performance-related employee stock option plans, in the period until the next AGM.

The Board of Directors' statement pursuant to Chap. 19 § 22 of the Swedish Companies Act (2005:551) is set out in **Appendix 1**.

C) Transfer of own shares due to the performance-related employee stock option plan 2008

The Board of Directors proposes that the AGM approves the transfer of Höganäs shares on the following terms:

1. A maximum of 330,000 class B shares may be transferred;
2. The right to acquire shares shall vest in the persons encompassed by Höganäs' performance-related employee stock option plan (the "Participants"), with each Participant entitled to acquire a maximum number of shares pursuant to the terms of Höganäs' performance-related employee stock option plan;
3. Participants' rights to acquire shares require all terms of Höganäs' performance-related employee stock option plan being satisfied;
4. Participants shall make payment for class B shares within the time, and in the manner, stated in the terms of the performance-related employee stock option plan;
5. The price of each class B share acquired through the employee stock option plan shall be 120% of the average volume-weighted price paid for class B shares on the Stockholm

CONVENIENCE TRANSLATION

- Stock Exchange during a period of 10 trading days immediately after 14 May 2008. The price and number of shares that each employee stock option confers the right to subscribe for may also be subject to conversion pursuant to the terms of the performance-related employee stock option plan as a consequence of capitalization issues, share splits, rights issues and similar actions;
6. Additionally, before the AGM 2009, if Participants demand cash redemption, the company shall have the right to transfer the requisite number of shares on the Stockholm Stock Exchange at a price within the quoted price interval for the share from time to time;
 7. Before the AGM 2009, the company shall also have the right to transfer a maximum of 80,000 class B shares of the holding of 330,000 class B shares to cover social security costs. The transfer of these shares shall be made on the Stockholm Stock Exchange at a price within the quoted price interval for the share from time to time.

D) Transfer of own shares due to the performance-related employee stock option plan 2007

1. Due to the performance-related employee stock option plan 2007, before the AGM 2009, if Participants demand cash redemption, the company shall have the right to transfer the requisite number of shares on the Stockholm Stock Exchange at a price within the quoted price interval for the share from time to time;
2. Due to the performance-related employee stock option plan 2007, before the AGM 2009, the company shall also have the right to transfer a maximum of 80,000 class B shares of the holding of 330,000 class B shares to cover social security costs. The transfer of these shares shall be made on the Stockholm Stock Exchange at a price within the quoted price interval for the share from time to time.

Reasons for the deviation from the shareholders' preferential rights and the basis of calculating the transfer price are as follows:

The transfer of own shares is part of the implementation of a performance-related employee stock option plan, which the Board of Directors considers beneficial for the company and the shareholders of the company.

The basis for calculating the transfer price is stated in the above proposal from the Board of Directors.

Resolutions by the AGM pursuant to item b) above require approval of shareholders with at least two-thirds, and resolutions pursuant to items c)-d) above require approval of shareholders with at least nine-tenths of the votes cast and shares represented at the AGM.

Höganäs in March 2008
HÖGANÄS AB (publ)
The Board of Directors