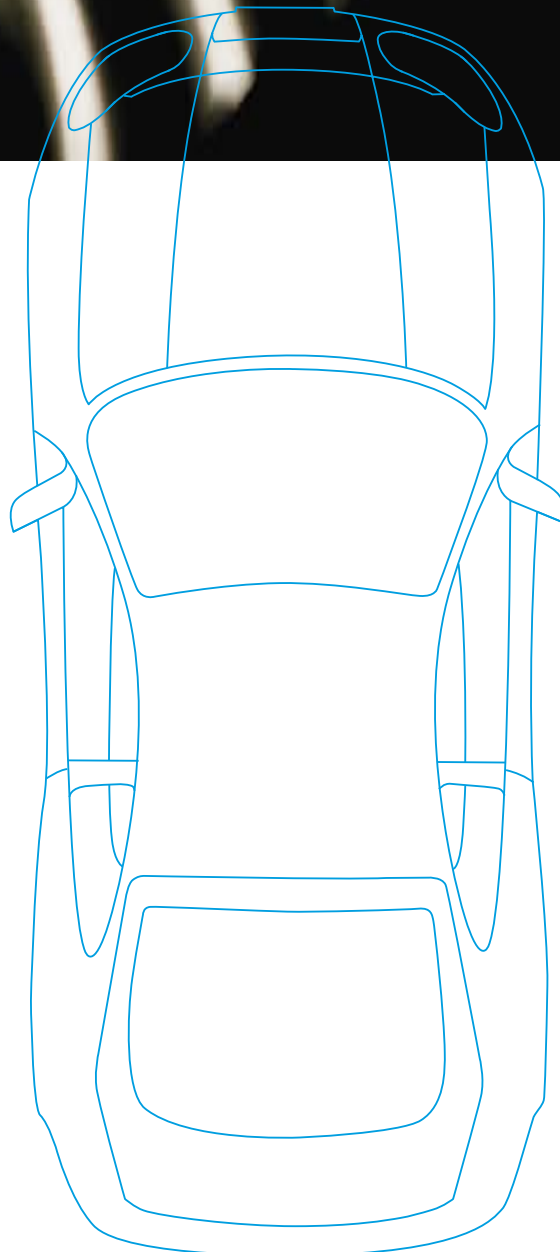
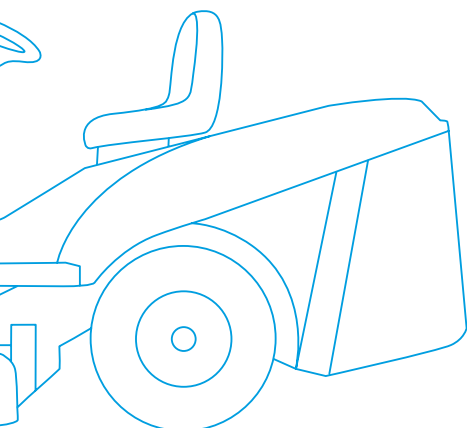
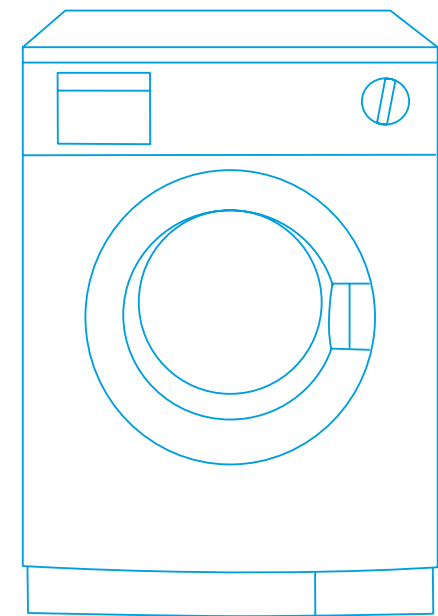
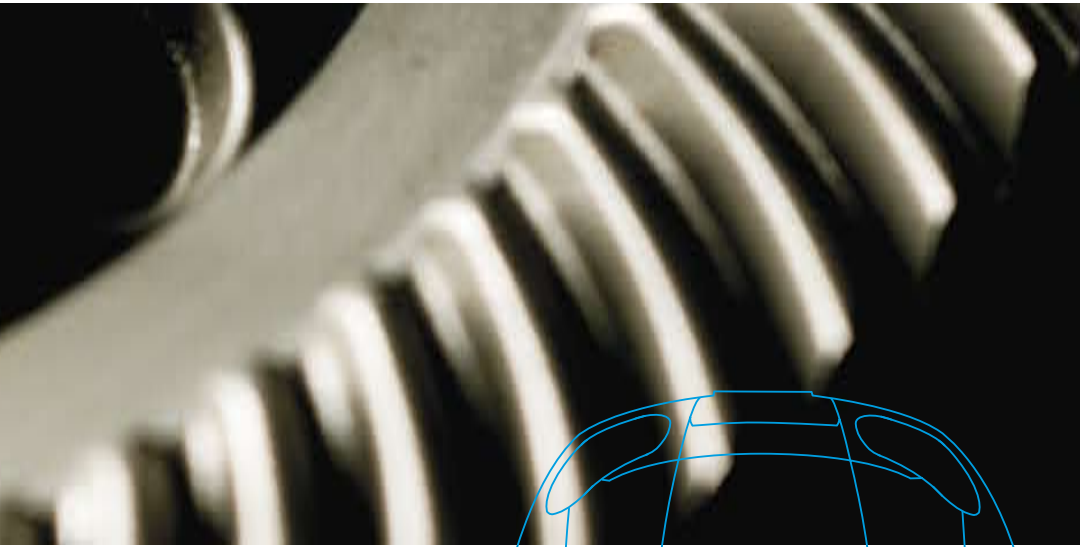


**Profitable growth
from powder**





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Component shown here provided courtesy of Federal Mogul

*This annual report was produced
in co-operation with ID kommunikation ab.
Photography: Claes Westlin, Klas Andersson and Lasse Strandberg.
Illustration: Ebbe Bredberg
Printing: Holmbergs, Malmö.*

Year in short



	2006	2005
Net sales, MSEK	5 123	4 594
Operating margin, %	11.8	10.0
Income before tax, MSEK	525	408
Net income, MSEK	402	290
Equity/assets ratio, %	51.5	48.5
Return on capital employed, %	15.5	12.0
Average number of employees	1 579	1 572

- Höganäs begins monitoring and reporting its operations from a market perspective via two business areas: Components and Consumables.
- On-going implementation of the new strategic direction of stimulating profitable growth.
- Realignment of the Company's structure and marketing function to increase its customer focus.
- Höganäs provisioned costs of MBRL 11.3 in its Brazilian operations, equivalent to MSEK 41. Of these MSEK 41, MSEK 20 affects the operating income and the remainder, net financial income and expenses.
- A smaller product segment in Höganäs Brasil is divested, generating a capital gain of MSEK 10.
- Proposed dividends are 6.25 (5.75) per share.

Vision

To make metal powder solutions the first choice

Mission

Höganäs offers metal powder solutions that create new business and profitable growth for its partners and customers

Business idea

Höganäs is the world's leading supplier of metal powder technology. Metal powders from Höganäs facilitate designing-in high-value properties into components and consumables whilst ensuring lowest total manufacturing costs. Höganäs' aim is to support optimized manufacturing of metal-powder based components and consumables. This powers products and systems being delivered to market in a rapid, reliable and cost-effective manner.

Financial targets

- Operating margin of 15 per cent
- Return on capital employed of 20 per cent
- Annual growth of 6 to 8 per cent over a business cycle

A year **forward**



*Alrik Danielson, Höganäs CEO and President.
At right, Mr. Danielson is shown together with Vincent Rasneur,
Managing Director of Höganäs Belgium.*

Financial results

The Höganäs Group continued to deliver a good result during 2006. Höganäs' sales volumes developed favourably and operating income improved. This was achieved despite a stagnating world market and volatile metal prices. Net sales amounted to MSEK 5 123 and operating profit reached MSEK 602, 31% higher than in 2005. Cash flow from operations has been positive during the year. Initiatives to reduce working capital and increase profit have successfully contributed to this.

Market development

The demand for Höganäs products improved and sales volumes increased with 9% compared to 2005. The year 2006 turned out to be considerably more active than 2005 and Höganäs sales developed well above the market, in general.

Throughout Europe, demand for Höganäs metal powders was stronger than expected during 2006. In North America, Höganäs increased volumes despite of a contracting marketplace. The Höganäs iron powder manufacturing facility in Stony Creek, which commenced operations in 2001, is now a positive contributor to the Group's result. In South America, Höganäs achieved very strong development during 2006.

In Asia, volume development was positive - especially in India, Korea and South East Asia. In Japan, Höganäs developed according to expectations but growth during the year was not as strong as it was in 2005. In China and Taiwan, volume development was negative during the year. In Taiwan this was due to inventory adjustment with the main customers and a marketplace that developed more slowly than expected. In China, where higher volumes are currently found in applications with low degree of differentiation, lower volumes were a result of Höganäs deciding not to chase low price business. Höganäs is working hard to support change in China by providing customers and end-users with technical support to improve their capabilities.

*"New dynamism and speed
throughout the Höganäs Group
and its decision making
processes"*

Customer orientation

In 2006 Höganäs moved towards attaining a higher degree of market orientation by starting to monitor and report its sales in relation to applications and customer segments, instead of from a production perspective. Höganäs' two main business areas are Components and Consumables. Components represents about 70% of the Group's turnover area and encompasses all powders that are converted to components by our primary customer base. The main market for customers' components is the automotive industry. Consumables delivers the remaining 30% of Group turnover and is focused on various applications where metal powder is primarily used as source material in metallurgical and chemical processes, brazing, welding surface coatings and food.

Operational excellence, highly volatile metal prices

Höganäs has continued to improve its operational excellence, in part by reducing manufacturing costs, increasing efficiency and decreasing energy consumption per unit produced. Focus has also been given to Zero Accident and Quality. All Höganäs facilities operate according to ISO 9001:2000. Höganäs is looking to approve all of its relevant



facilities for ISO/TS 16949, which is a globally accepted quality requirement used in the automotive industry. So far Höganäs operations in Europe, North America and India have achieved this certification.

Group efforts to improve operational excellence have, however, not totally offset higher utility and energy prices experienced during the year. Combined with the increased volatility of the metal prices, these required Höganäs to actively seek additional compensation in the marketplace. These efforts will continue during 2007.

High metal prices have also resulted in increasing customer pressure for Höganäs to provide more cost effective powders than those with high contents of alloying metals like nickel. For this reason there has been increased interest in Höganäs Astaloy® CrM material, where expensive alloying metals are replaced with chrome, a metal that has experienced a considerably more moderate price development during the last couple of years. There was also an increasing interest for Höganäs Somaloy® Soft Magnetic Composite powders during the year, not the least in Japan. Höganäs research & development and marketing teams worked hard in these areas during 2006.

Strengthened Group Management structure

Globalisation is placing new demands on Höganäs to provide even greater global levels of collaboration. Therefore the Group management team has been expanded and now includes staff and process owners from Höganäs' seven main geographical regions. This has given new dynamism and speed throughout the Höganäs Group and its decision making processes. A further initiative to increase market-place drive and speed is the Höganäs Business Academy, which involves coaching and developing Höganäs' highly skilled workforce.

Outlook for 2007

Positive progress on the metal powder markets in Asia and South America is expected to continue. Weaker progress in North America is expected to persist, whilst Europe is expected to remain stable. The trend towards smaller and more fuel-efficient vehicles in North America will continue to hamper the growth of metal powders. Metal prices are expected to remain volatile during 2007. With these market assumptions Höganäs expects to achieve a continued positive volume development.

Höganäs will continue to strengthen its international presence, its application focused technology leadership and to develop its excellent people. I am confident that 2007 will bring Höganäs closer to its goals.

Höganäs, 31 January 2007

Arik Danielson
President and CEO

Powder Metallurgy industry



The majority of Höganäs' customers are active in the Powder Metallurgy (PM) industry, which represents some 70% of Höganäs' sales. Höganäs supplies high-value metal powders that are formed into final or near-net shape components in the processes of component manufacturers. They then supply components via system or assembly manufacturers, or directly to Original Equipment Manufacturers (OEMs).

In addition to the PM industry, Höganäs metal powders are used in the welding, brazing, surface coating, chemical and metallurgical processing industries primarily by:

- Producers of welding, filter and friction consumables
- Users of brazing, cutting and coating technologies
- Producers of food and feed enrichment

These segments are monitored by the business area Consumables, which contributes about 30% of Höganäs' sales.

>5 billion USD worth of components per year

PM technology has grown faster than all other metal forming technologies for component manufacturing since its introduction more than fifty years ago. In 2006, the global PM industry delivered close to one million tons at an estimated annual value of over 5 billion USD. However, continued increasing metal prices and intensive competition have negatively impacted suppliers active in the PM industry during 2006. To help its customers differentiate their offerings in this environment, Höganäs actively seeks to work in close customer partnerships.

Growth driver: increased production volumes

Production volume growth occurs primarily when metal powder-based components penetrate more and new application areas in the products, assemblies and systems of existing OEM customers. These are most likely found in the automotive industry. On average modern cars contain 10 kg of components produced from metal powder, although this varies depending on where the cars are produced and type of car.

PM technology has evolved from fairly simple applications to increasingly critical components. This is reflected in the fact that PM components have been gaining increased market shares in more vital automotive application areas, such as valve train mechanisms, transmission parts, fuel injection systems, turbo chargers and steering assemblies.

Growth driver: innovative powder design

The performance and value of PM components often relates directly to the metal powder from which they are made. As such, growth of the PM industry is heavily reliant upon the development of new and improved metal powders. The technology is continuing to advance and new metal powder-based solutions are being delivered. As applications become increasingly demanding and specialized, powder solutions need to be tailored to individual design requirements.

Metal powder technology development efforts made at Höganäs are channelled towards solutions offering higher performance and strength. This is achieved by increasing density through powder manipulation and additives as well as by adopting cost effective alloying systems, such as chrome. As the density of metal powders gets pushed higher, the properties of the component approach that of wrought



steel. As a result, larger percentages of the overall fabricated metal-based components can be produced with PM technology. One of the latest examples of Höganäs improving performance is a high performance powder that reaches up to more than 95% of full density (7.5 g/cc), designed for replacement of wrought material.

Growth driver: new segments and applications

A broad number of industry segments already specify powder-based metal components. However, across most segments, PM has tremendous opportunities to increase its market share against competing technologies. In some instances, powder technology adds specific characteristics to the products that cannot be created in a cost effective manner by other production routes. One example is components with three-dimensional electromagnetic properties produced with Höganäs Somaloy® powders. For many other applications, metal powder is a substitution technology driven by opportunities to produce high-quality components at lower total costs.

The PM industry is continually stretching the bounds of component possibilities. New components are today designed for a better utilization of the uniqueness powder technology can offer. Thus, it is possible to optimize the final characteristics individually, such as dimensional accuracy or mechanical strength. Future growth prospects rely precisely on the ability to create and apply tailored solutions.



Automotive industry



About 60% of Höganäs total annual sales originate from the global automotive industry. So understanding, forecasting and adapting to the needs of companies active in this industry are crucial to the value chain. Höganäs focuses its work towards realizing improvements in the specific areas of power train as well as body and chassis.

The automotive industry in 2006

Today's automotive industry is in a state of transition. This transition is characterized by global partnerships, changing supplier relationships, co-developed vehicle platforms, manufacturing flexibility and ever-faster development times with increasing quality demands. While suppliers are expected to meet all these demands, they must seek to ensure their own supply chain efficiencies whilst managing overall cost pressures.

The automotive industry as a whole is still growing as it expands into emerging markets, including China, India, the rest of Asia and Russia. In the US, trends continue towards smaller, more fuel-efficient cars and there were reduced sales of Sports Utility Vehicles (SUVs), which have represented a high volume segment for the PM industry in recent years. Even though PM applications are gaining acceptance for new car models, this has not offset consumer trends and the PM industry as a whole contracted during 2006.

What follows are some of the more important industry trends and how they impact Höganäs and its customers.

Concurrent engineering

Today, the typical design-to-start-of-production (SOP) process for a modified assembly and/or component in an existing vehicle platform model is approximately 18 to 24 months, which is much faster than the 60 month cycle typical five years ago. For an entirely new vehicle platform model, the SOP process is around four years. Meanwhile, the evolution of automotive designs has moved towards the platform concept, where car model differentiation is

achieved with one basic design. Of course, automotive OEMs recognize that shorter cycle times place tremendous pressures on their plants and suppliers to quickly prototype and demonstrate the effectiveness of their solutions. So they look to take full advantage of expertise and technology from all around the world.

Outsourcing

Though widely practiced, various automotive OEMs display different attitudes with regard to the types of equipment they consider too strategically important to outsource. Virtually all car engines have traditionally been designed, produced and assembled in-house; with specialist assistance from external suppliers. This has also applied to some common elements used in multi-vehicle platforms. However, all indications are that the outsourcing of components and related component design engineering and production expertise will continue to increase. Meanwhile, there is a continued migration of engineering competence from OEMs to suppliers of advanced technology equipment, assemblies and components.

Improved fuel efficiency

The global automotive industry is focusing on improving fuel efficiency, decrease vehicle utilization of oil and decrease dependency on internal combustion engines. One of the primary efforts to improve fuel efficiency in internal combustion engine vehicles is lowering total vehicle weight.

Efforts to develop and market E85 ethanol vehicles, Fuel Cell Vehicles (FCVs) and hybrid-electric vehicles are based on the desire to decrease dependency on non-renewable fuels. One example was when Ford, GM and DaimlerChrysler announced in a June 2006 letter to the US Congress that



they will double production of vehicles capable of running on renewable fuels by 2010. This means valve systems with improved heat resistance. Höganäs is actively developing new materials with its customers to meet these higher requirements. In the case of GM, for instance, that would mean more than two million E-85 and bio diesel-capable vehicles a year by the end of the decade. Globally, estimates

are for series commercial production of FCVs to begin between 2010 and 2020. Though the PM industry has not yet gained a significant presence in these vehicles, these developments do present new opportunities. With its Somaloy® technology, Höganäs takes an active part in a range of development projects to be used in hybrid vehicles and FCVs.



Components from powder are used in the engine, transmission, exhaust system, body and chassis as well as various mechanisms.



High-value Components from powder

Metal powders have been used as engineering material in automotive applications for well over fifty years. Expansion into new applications and industries has led to development of a broad range of powder products with different chemical compositions, particle sizes and particle shapes. Höganäs takes a leading role in these advances and offers a more comprehensive portfolio than any other metal powder producer.

About the Components business area

The Components business area accounts for around 70% of Group sales. Some 75% of this is represented by sales to the automotive industry. The main customers are component manufacturers supplying either directly to OEMs or via system or assembly manufacturers. Some recent customer activities in the Components business area can be found within pages 15–21.

Markets

Höganäs is currently present in all market regions. North America, which remains the world’s largest market for metal powder-based components, is coping with more intense global competition. The flattening of the global supply base and the emergence of China as a powerful competitor are acting as forces of change. Buying patterns of US-car buyers have also negatively affected the PM industry in

North America. For example, US-car buyers demonstrated a preference for smaller, more fuel-efficient vehicles in 2006. This resulted in reduced sales of SUVs, traditionally heavy users of PM components.

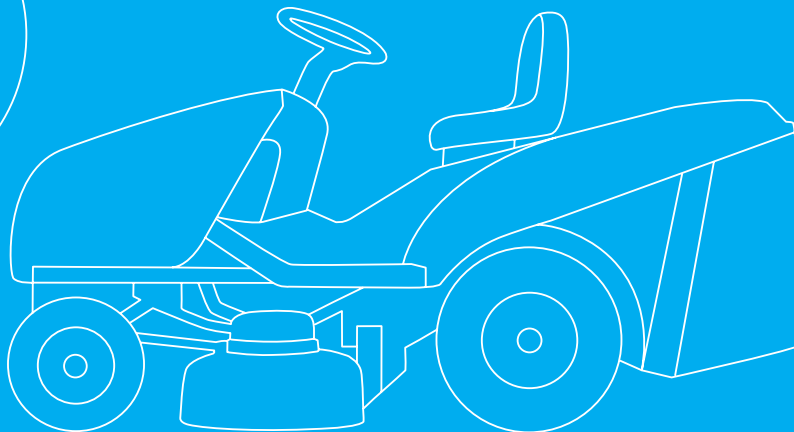
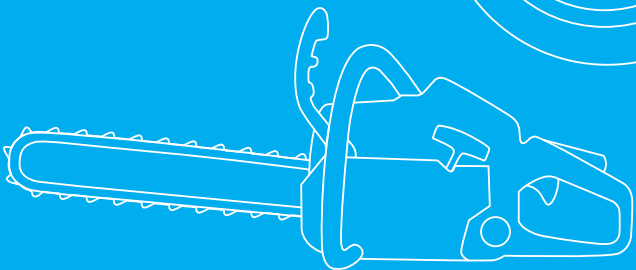
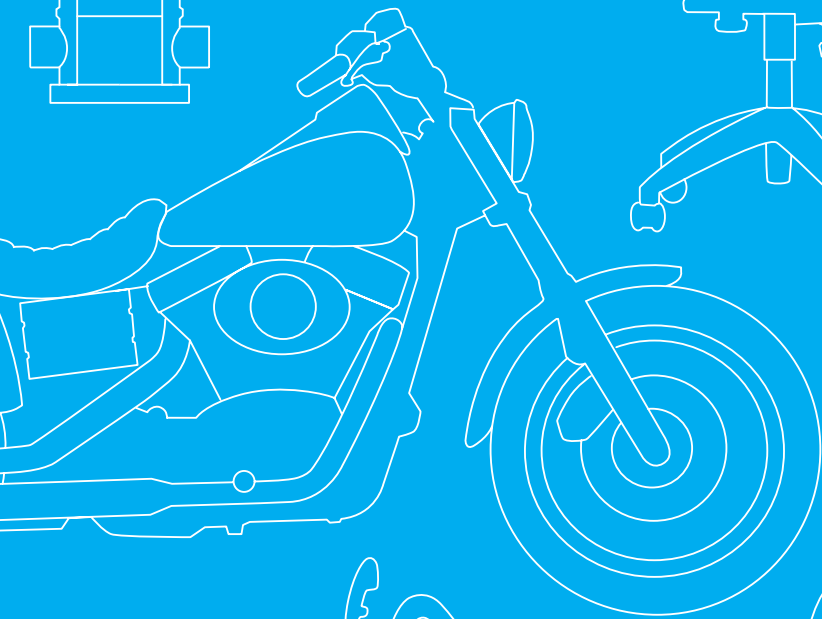
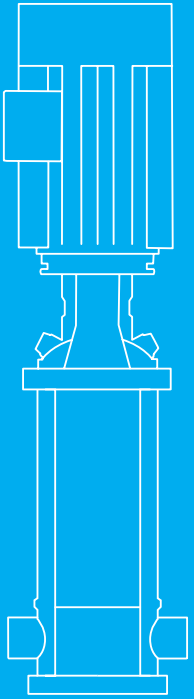
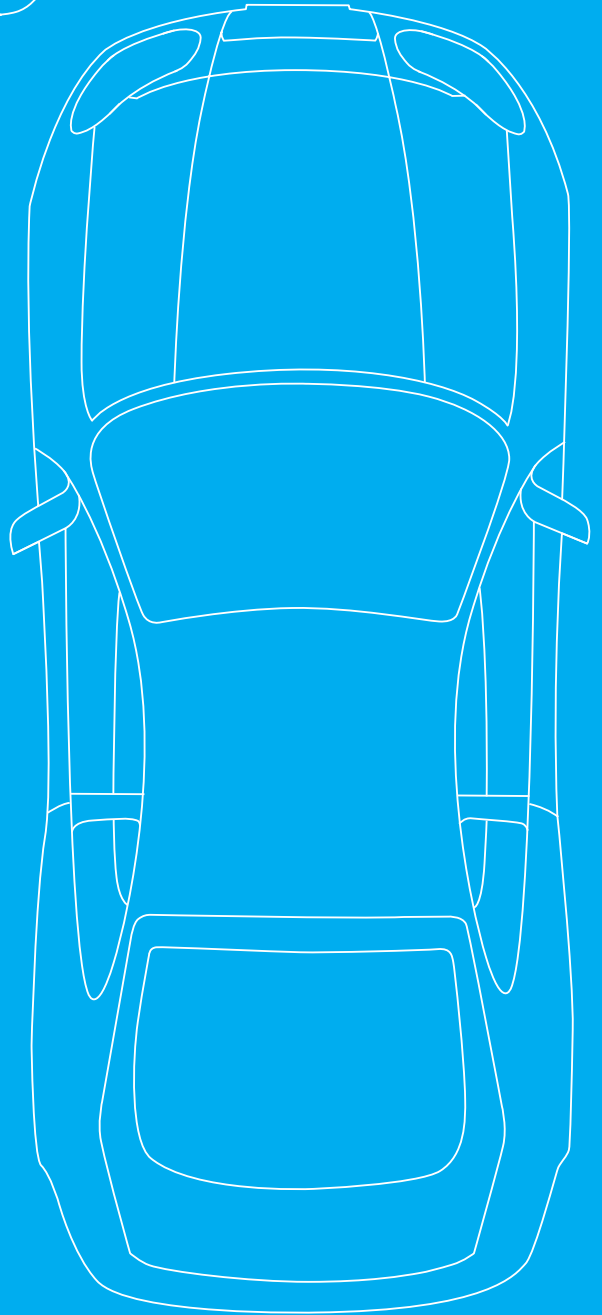
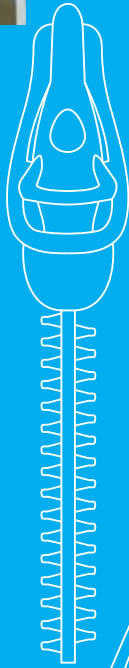
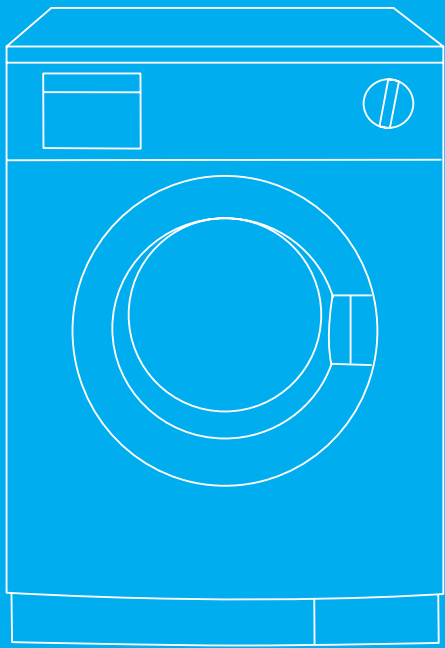
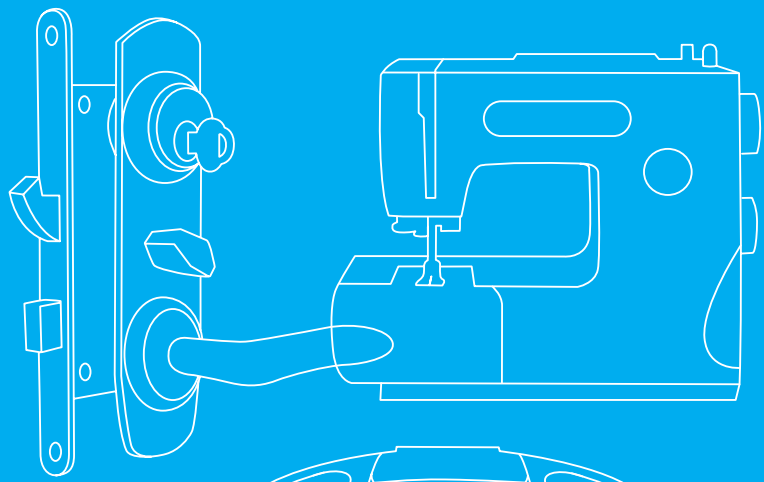
The European market has progressed weakly in recent years. However, 2006 was a very good year for Europe’s powder market in general and for Höganäs specifically. Progress in Japan and Korea has been positive for several years. Activities are also increasing in Southeast Asia, particularly in Malaysia and Thailand. The same is true for China and India, which are viewed as high growth potential markets. The market has progressed positively for several years in South America, particularly Brazil.

Competitors

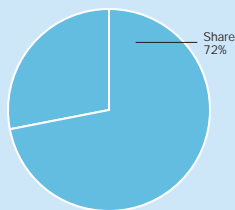
At present, global production of metal powders for components is heavily concentrated on seven major producers. Of these, Höganäs is the leader. Several of Höganäs’ major direct competitors are owned by raw material producers and have concentrated production strategies, progressively improving their ability to develop product quality. Alongside surplus production capacity this means that, at present, many Höganäs products are exposed to competition. There are another 40 or so metal powder producers globally, the majority of which are based in China.

Global producers of metal powder for components

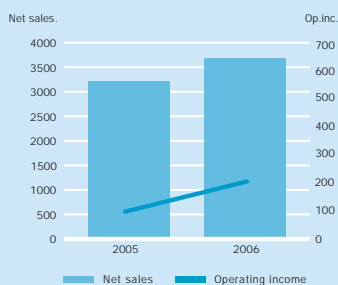
Producer	Head office	Main markets	Product Type
Höganäs AB	Sweden	EU, USA, Asia	Iron powder, high alloys
Hoeganaes Corporation	USA	USA, EU	Iron powder, high alloys
QMP	Canada	USA, EU	Iron powder
Kobelco	Japan	Asia, USA	Iron powder
JFE	Japan	Asia	Iron powder
Ametek	USA	USA	High alloys
Daido	Japan	Japan	High alloys



Components share of Höganäs' net sales



Net sales and operating income, MSEK



Financial year 2006

The net sales of the Components business area were MSEK 3 673 (3 196), a 15% increase year on year. The increase is due firstly to expanded volumes, and secondly to price changes implemented. Exchange rate fluctuations exerted a lesser, negative impact on turnover.

Volumes have increased by 10% in the year. All markets sustained positive volume growth, apart from China and Taiwan.

Operating income was MSEK 332 (223). As stated previously, earnings were adversely affected by rising metal prices, increased energy costs and currency effects. The aforementioned non-recurring items exerted a marginal positive impact on operating income. Excluding non-recurring items, operating margins were 8.9% (9.5) in 2006.

Key indicators, Components

	2006	2005
Net sales, MSEK	3 673	3 196
Change %	15	-
Operating income, MSEK	332	223
Operating margin, %	9.0	7.0
Assets, MSEK	3 840	4 048
Liabilities, MSEK	1 592	1 430
Capital expenditure on fixed assets, MSEK	171	203
Depreciation and amortisation, MSEK	218	215
Write-downs, MSEK	0	69

Optimized **Consumables** from powder



Metal powder is used as a consumable in various applications. For instance, iron, nickel and cobalt-based powder alloys are used as consumables in filters, brazing paste and thermal coating applications. Other areas include welding electrodes, friction material for brake pads, toners for printers and copy machines, additives in metallurgical as well as chemical processes and more. Iron powders also represent important ingredients in a number of food products to combat iron deficiency.

About the Consumables business area

Some 30% of Höganäs' total Group sales originate from its Consumables business area. This area is significantly less dependant on the automotive industry. The main customers are active in a broad range of industry sectors. They either operate as OEMs or deliver raw materials, components or systems to OEMs. Some recent customer activities from the Consumables business area can be found on pages 17–23.

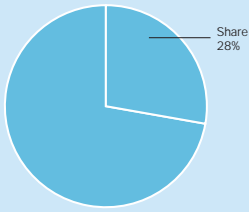
Markets

The Consumables business area is present in all market regions. The main segments today are the welding and metallurgical industries and the chemical and surface coating industries. In the welding and metallurgical segment, growth in infrastructure triggers growth in steel production and thus the need for these consumables. The welding and metallurgical segment has therefore developed positively during 2006 in all geographic regions. For instance, metal powders for metallurgical applications progressed strongly in Brazil during 2006. Welding has enjoyed its largest growth in Asia.

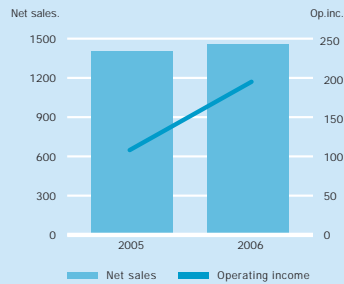
In the surface coating segment, metal powders are applied onto a substrate as a coating to yield a thin film that enhances the appearance, function and performance of a product. Here, advances in powder technology as well as stricter environmental legislation are two of the primary growth drivers. This segment has also developed most strongly in Asia.

Metal powders used for food and feed enrichment by premixers, millers and bakers represent another segment for Consumables. Höganäs has taken a leading role through the development of its range of NutraFine® iron powders, which enable iron fortification and enrichment in various foods (see page 19).

Consumables share of Höganäs' net sales



Net sales and operating income, MSEK



Competitors

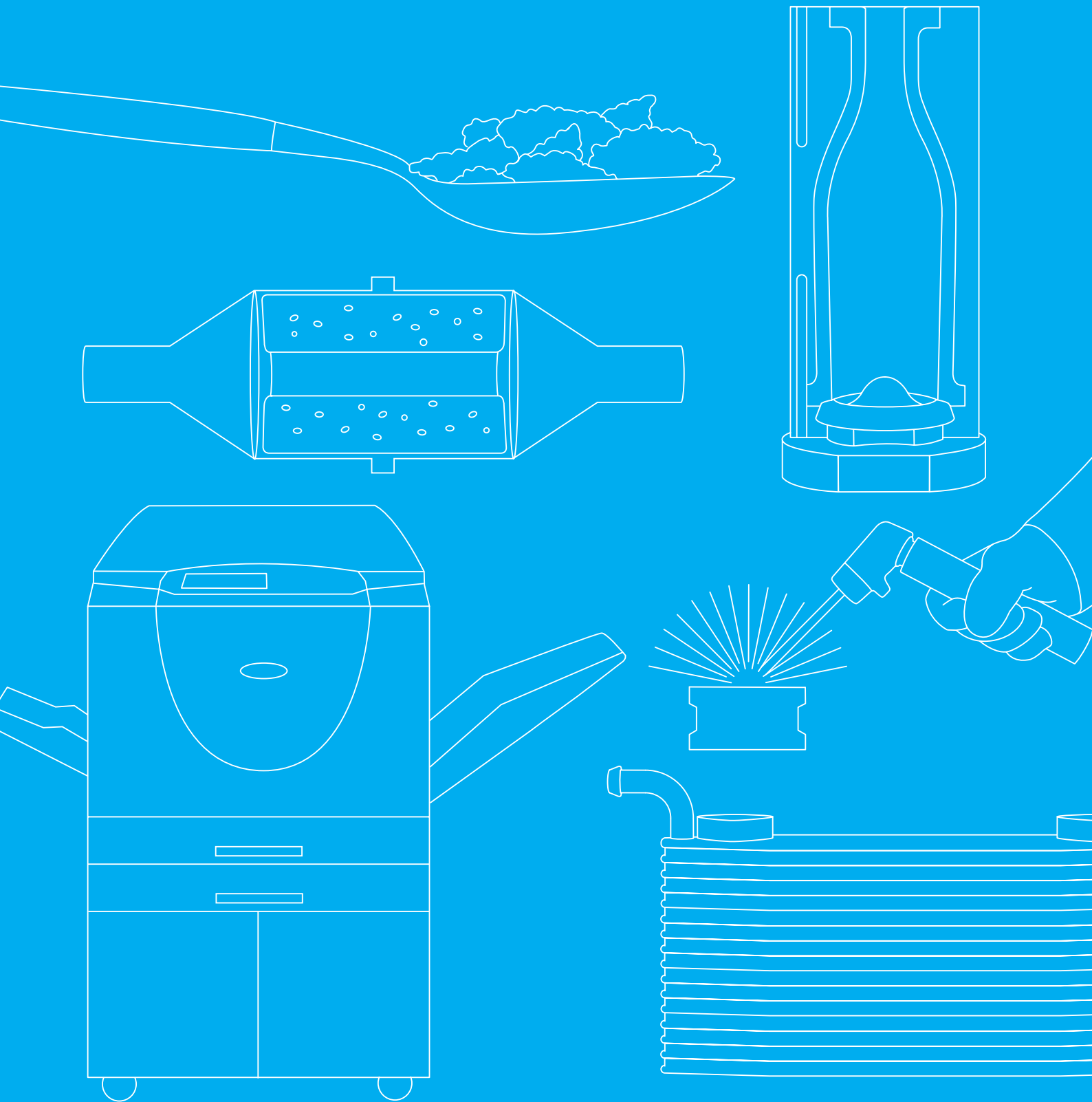
From a global perspective, there are nine major producers of metal powders for consumables applications. Of these, Höganäs is amongst the leaders. As with Components, several of Höganäs' major direct competitors have progressively improved the quality of their products in recent years. Coupled with surplus production capacity this means that many Höganäs products are exposed to competition today. All total, there are around 60 producers of metal powders for consumables applications.

Global producers of metal powder for consumables

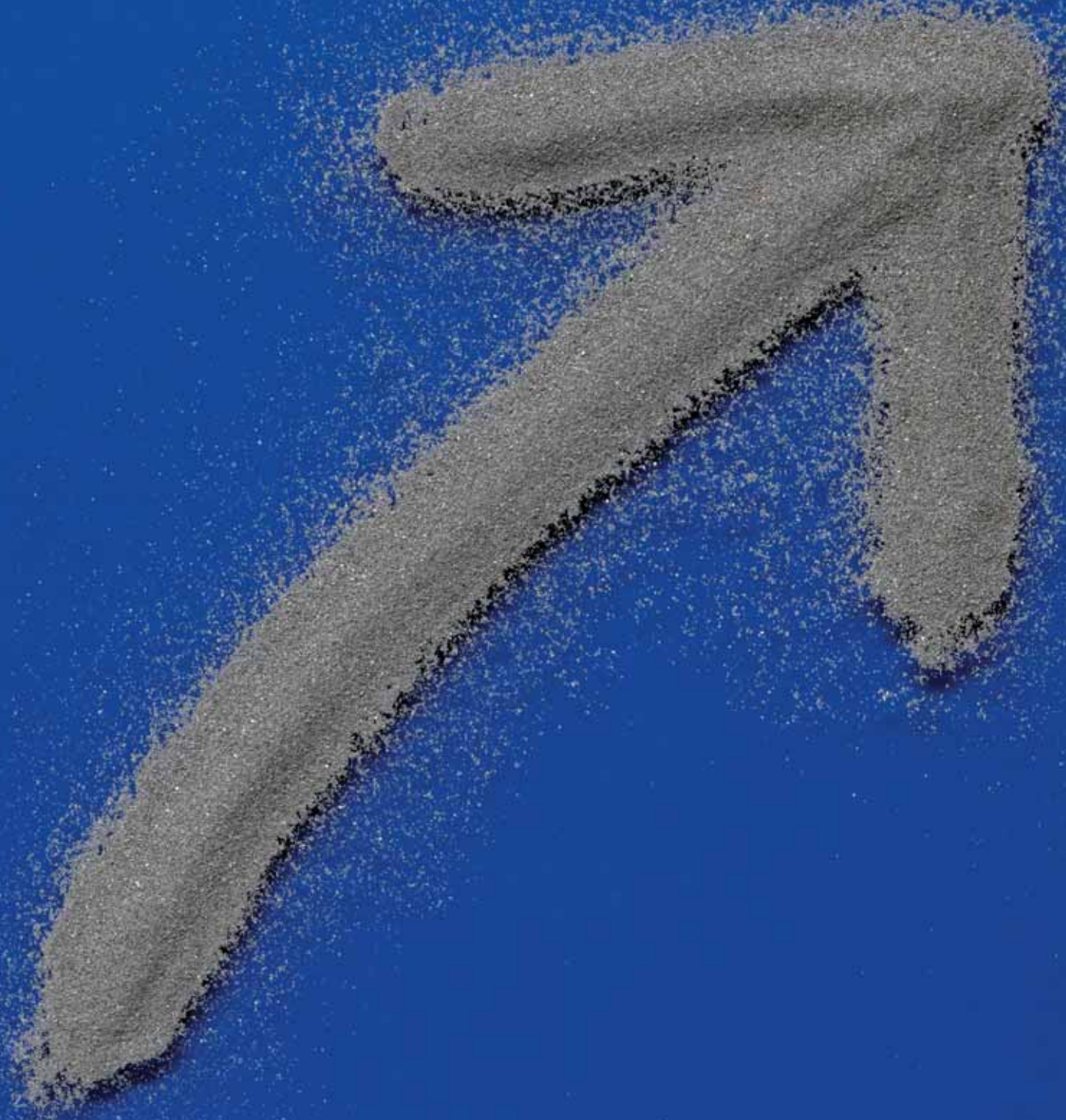
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Hoeganaes Corporation	USA	USA, EU	Iron powder, high alloys
Kobelco	Japan	Asia, USA	Iron powder
JFE	Japan	Asia	Iron powder
Dowa	Japan	Asia	Iron powder
Daido	Japan	Japan	High alloys
Wall Colmonoy	USA	USA, EU, Asia	High alloys
Deloro Stellite	USA	USA, EU, Asia	High alloys
Carpenter	USA	USA, EU	High alloys

Key indicators, Consumables

	2006	2005
Net sales, MSEK	1 450	1 398
Change %	4	-
Operating income, MSEK	197	109
Operating margin, %	13.6	7.8
Assets, MSEK	1 214	1 149
Liabilities, MSEK	443	833
Capital expenditure on fixed assets, MSEK	48	57
Depreciation and amortisation, MSEK	60	61
Write-downs, MSEK	0	19



Powering **growth** from powder



Powder metallurgy has been the fastest growing metal forming technology for some time now. However, more can be done to stimulate profitable growth.

Höganäs powering growth

Höganäs seeks to fuel further acceptance of PM technology amongst OEMs to stimulate profitable growth for its customers and itself. Penetrating new industry segments and applications calls for close cooperation between Höganäs and PM industry companies. Establishing technical seminars that describe new possibilities to prospective OEM customers is an effective method for this purpose as they provide environments where design and manufacturing teams share experience and knowledge.

Knowledge sharing

In November 2006 Höganäs arranged a seminar promoting its Somaloy® technology in France together with the component manufacturer Federal Mogul as well as Cedrat, a provider of software tools and design services within electrical engineering. The event attracted around 50 attendees; many representing large companies active in the electrical motor and engineering industries in France, Germany and Spain. Seminar presentations ranged from materials, part manufacturing and software calculation tools. In addition, invited speakers explained innovative design concepts and commercial applications with Höganäs Somaloy®.

Another example comes from Höganäs Brasil, which initiated seminars on new applications for components. These attracted representatives from nearly 50 OEM companies involved in automotive, locks, brakes, loudspeakers and electromagnetic motors. One attendee was Amauri Loberto of Magnetti Marelli-COFAP, who said: "I believe Höganäs' initiative to be most important. Not only for the industry, but also for our schools and universities. For these reasons I am most confident in our on-going development work."

COMPONENTS CASE



New Kinnarps chairs powered by PM. During February 2007, Kinnarps AB of Sweden is launching their new 9000 series chairs. It marks the first time PM technology has gained a truly significant presence in Kinnarps' chairs. In fact, each chair contains 11 metal powder-based components. Depending on the component, Kinnarps reports PM delivers up to 50% cost savings compared to machining of conventional steels. Plus, PM was able to meet strength requirements that could not be fulfilled with die-cast zinc or plastics. All this may never have happened had Höganäs and component manufacturer Callo AB of Sweden not held a seminar to introduce Kinnarps to

PM technology back in 2004. Following the seminar components were initially tested and converted for a safety feature used in earlier Kinnarps' chair models. Successful conversion of the feature led Kinnarps to request both Callo and Sinterteknik AB of Sweden to supply 11 metal powder-based components for the 9000 series' structural platform. Höganäs now supports both companies in meeting requirements for production scale manufacture of all components. "Sintered steel was a relatively new material choice for us. In many cases it is a very suitable alternative to plastics, zinc and steels," says Maria Hillevärn of Kinnarps. "I am fully convinced we will select sintered components in future projects."

COMPONENTS CASE



Converting new applications in Taiwan. With its highly advanced press technology, the PM component manufacturer Porite Taiwan Co., Ltd. is often quick to try out and adapt new materials from Höganäs. Since 2004 Porite and Höganäs have been demon-

strating how high strength/high density powder enables cost savings in OEM products, whilst helping power growth for PM industry at the same time. Two applications involved converting components used in electrical power tools that had previously been manufactured from wrought steel. Using a Höganäs powder that reaches up to more than 95% of full density (7.5 g/cc), Porite estimates cost savings of 50% for both applications. In one application, being able to manufacture the component with PM meant eliminating a pin-pressing phase that had previously been conducted across six different locations.

Powering **cost savings** from powder



Höganäs powering cost savings

There are two ways that metal powder from Höganäs powers cost-savings. For one, compared to all other metal-based technologies, production with metal powders typically offers significant cost-savings. For instance, metal powder-based components can be produced to final or near-net shape dimensions with tight tolerances using fewer process steps. This powers cost-savings delivered through:

- Higher raw material utilization
- Lower energy and labour requirements through the elimination of extensive machining operations
- Fewer processing steps needed for finished components

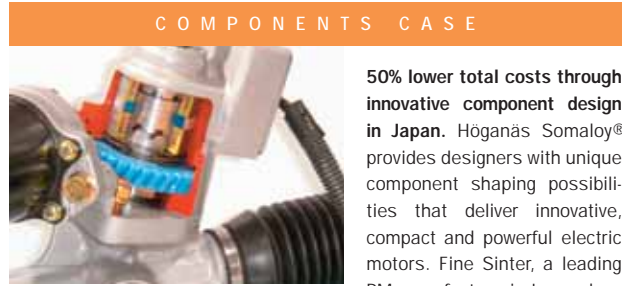
The second way that Höganäs powers cost-savings is the means by which Höganäs manages its own costs. Höganäs' ability to proactively counter price increases in raw material and energy through internal cost reductions, helps ensure lowest total costs. Höganäs is dedicated to achieving continuous improvements in all aspects of its operations, see pages 30–33.



COMPONENTS CASE

Inside Bosch's lightweight super-selling champion. Weighing in at just 300 grams, the Bosch IXO cordless drill/screwdriver is the best selling product of the Bosch Power Tool Division. Launched in 2004 and reaching global sales of about six million units by December 2006, the IXO utilizes PM components produced from

Höganäs Distaloy® powders. Porite Taiwan Co., Ltd supplies 100 000 planetary gear sets a month to Bosch Malaysia for the IXO II, the model exported to European markets. Manfred Lutz, R&D director at Bosch Malaysia, says: "the advantages PM offers are cost savings, precision in tolerance, higher mechanical strength than plastics and that components can be made in mass production in a short period of time."



COMPONENTS CASE

50% lower total costs through innovative component design in Japan. Höganäs Somaloy® provides designers with unique component shaping possibilities that deliver innovative, compact and powerful electric motors. Fine Sinter, a leading PM manufacturer in Japan, dem-

onstrated this in a project involving Höganäs and JTEKT, a primary supplier of steering systems to Toyota Group. After being introduced to Höganäs Somaloy® technology, Fine Sinter tested the material as an alternative to stainless powder that had been used for a steering system. Several prototypes led to geometry optimization and acceptable dimensional accuracy. Manufacturing using Höganäs Somaloy® instead of stainless powder gave a 50% cost reduction of the component and improved the component's torque sensitivity by 30%.



CONSUMABLES CASE

New brazing alloy delivers cost savings for Honeywell. A new brazing alloy is proving ideal for difficult brazing problems in environments with extreme thermal excursions, vibration and corrosive factors. One example is Honeywell's Gar-

rett® Exhaust Gas Recirculation (EGR) cooler, which allows commercial and passenger vehicle engine manufacturers to meet emissions requirements by cooling some of the exhaust gas and returning it to the engine intake. Thanks to the new brazing alloy, Honeywell is now enjoying significant reductions in scrap and rework costs. They have also gained additional savings on raw materials due to the alloy's wide gap capabilities. All of this equates to lowest total cost manufacturing due to more flexibility in manufacturing and process optimization. For instance, the new alloy optimizes applying the metal powder-based paste by relaxing the tolerances for the brazed sheet metal parts.

Powering **innovation** from powder



Delivering innovative products and systems to market first enables OEMs to secure larger market shares faster and retain them longer. To OEMs innovation can mean products and systems that cost less to produce, are more durable, weigh less, etc. Metal powders let OEM design engineers tailor shapes and properties to meet their specifications. This gives design engineers many options for creating new or improved products and systems.

Reinvesting in innovation

Höganäs annually reinvests some 2.5% of its net sales on innovation activities. These are aimed at developing new products and solutions, technical customer services and support as well as Höganäs' internal process re-engineering.

These activities support customers in investigating new applications and new engineering challenges by acting as an innovation partner. One proof of its effectiveness is Höganäs' broad product portfolio of base and custom-specific metal powders.

Höganäs R&D and Tech Centre

Höganäs R&D and Tech Centre staff members provide customers with development support and technical services. Höganäs Tech Centres are fully equipped for metallographic investigations. Located in Sweden, the US (Pennsylvania) and China (Shanghai), these facilities help customers with troubleshooting, develop process routes for new components and consumables as well as supply tailor-made test mixes.

Powder design

Powder design entails material characterization work, which is focused on improving powder properties such as flow characteristics, tool filling and mix stability. It is increasingly necessary to optimize and select the characteristics that are most important to the performance of individual components, which typically necessitates co-development with OEMs and component manufacturers. One example is Höganäs Somaloy[®], a soft magnetic powder-based composite technology with three-dimensional (3D) magnetic properties for different electromagnetic applications. Still in development in some markets, Höganäs is working alongside customers to develop solutions that are superior to conventional technologies.

CONSUMABLES CASE



Höganäs in the fight against iron deficiency. Iron deficiency is among the world's top 10 most serious health problems. The condition affects almost 5 billion people and there are over 1 billion sufferers of the more severe form. The condition undermines physical health, impairs mental development and increases

the dangers for pregnant women during childbirth. To power progress in the fight against iron deficiency, Höganäs now offers the food industry a new reduced iron powder, NutraFine[®]RS. Available globally it enables iron fortification and enrichment of flour, breakfast cereals, infant cereals and pasta, to name a few. The severity of the problem and the global impact of iron deficiency have brought together organizations around the world. The Global Alliance for Improved Nutrition (GAIN), UNICEF, the World Bank, the World Health Organization, the World Food Programme, US Aid and the Micronutrient Initiative have all joined forces in the fight against iron deficiency. Recognising the need for industry support, GAIN formed the Business Alliance for Food Fortification, where Höganäs, Unilever, Heinz, Danone, DSM, BASF, Tetra Pak and Coca-Cola are among those companies supporting this global effort.

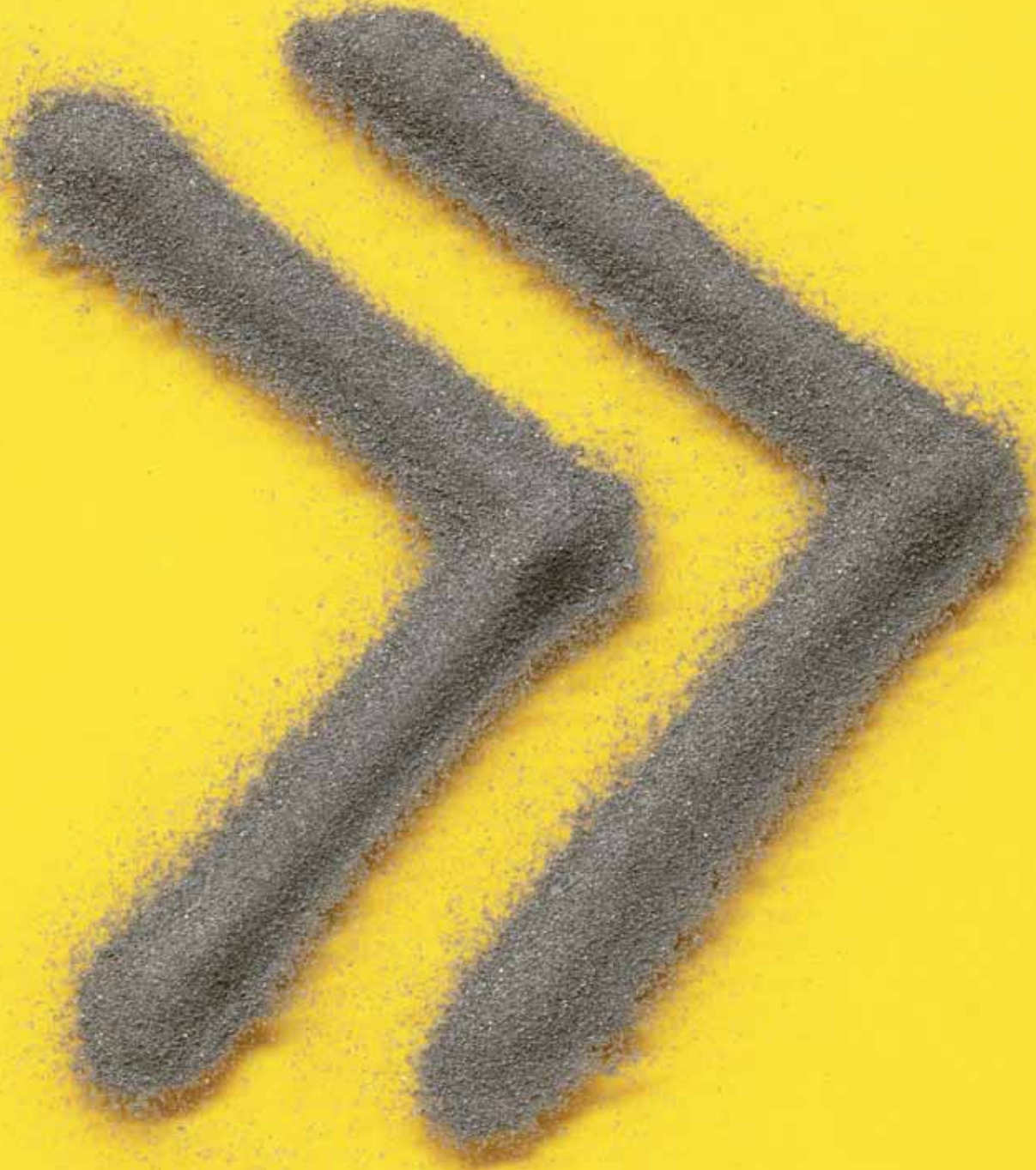
CONSUMABLES CASE



Höganäs develops award-winning coating innovation. North American Höganäs has served as an innovation collaborator with John Deere in developing the latter's SC-2 extended-life undercarriage technology, which is based on a patented process called GOPALITE[™]. Deere's GOPALITE[™] technology produces a proprietary deposit method using polyvinyl alcohol-based slurry from several organic additives and high

alloyed powder supplied by Höganäs. The slurry suspends the alloy powder and is used to apply the coating to the part surface, producing a coating that is uniform in both thickness and consistency. According to Bruce Boardman, manager of materials engineering at John Deere's Moline Technology Innovation Centre: "the coating technology is a giant step forward in the field of undercarriage design as it delivers twice the wear life over standard chrome plating." Launched in 2006, in its first commercial application SC-2 is being applied to bushings used on Deere crawlers, or bulldozers. The GOPALITE[™] coating technology is such a breakthrough that it was one of five winners of a 2006 Innovations Award from *Equipment World* magazine. Höganäs worked directly with Deere R&D staff in initial lab- and pilot-process scales to refine the powder chemistry and characteristics as well as with Deere's bushing manufacturer to meet furnace fusing process requirements for production scale.

Powering **time-to-market** efficiencies from powder



Time-to-market is critical to the profitability of OEMs. The over-riding goal is to reduce total time required to go from concept to final component. Compared to five years ago, today's nearly 66% shorter design-to-start-of-production process in the automotive industry is one example previously mentioned (see page 6).

Höganäs powering time-to-market efficiencies

Supplier timeframes are shorter than they have ever been in today's hyper-competitive, fast-paced world. Shorter cycle time places tremendous pressure on assembly and component suppliers to quickly prototype and demonstrate the effectiveness of their designs to OEMs. Meanwhile, achieving high press productivity and availability are vital aspects of a component manufacturer's business.

Value partnerships and collaborative engineering

Given this reality Höganäs actively seeks enter value partnerships within the realm of collaborative engineering projects. The aim is to partner with component manufacturers, tooling and equipment suppliers as well as OEMs. In doing so multi-discipline teams are formed with a broad understanding what it takes to realize time-to market efficiencies. In certain cases, Höganäs is prepared to offer technology-licensing agreements. Höganäs' ambition is to deliver solutions that meet requirements in as little time – and with the most efficient use of resources and effort – as possible.

COMPONENTS CASE

Customized powder design powers productivity in Italy. Better powder design has meant better material utilization and yielded a 20% increase in productivity for Metalsinter of Italy. Metalsinter was looking for more benefits than a standard press ready powder mix could deliver in manufacturing belt pulleys for automotive water pumps. So Metalsinter, Höganäs Italia, Höganäs Tech Centre as well as Höganäs R&D all worked together to optimize the application. After designing-in added value into Höganäs Starmix™, start up on one component commenced in autumn 2005. After successful lab-scale tests, the production was scaled up and testing continued under commercial manufacturing. The results confirmed better material utilization and a 20% productivity increase. Metalsinter is now using the customized mix for a family of components for the application.

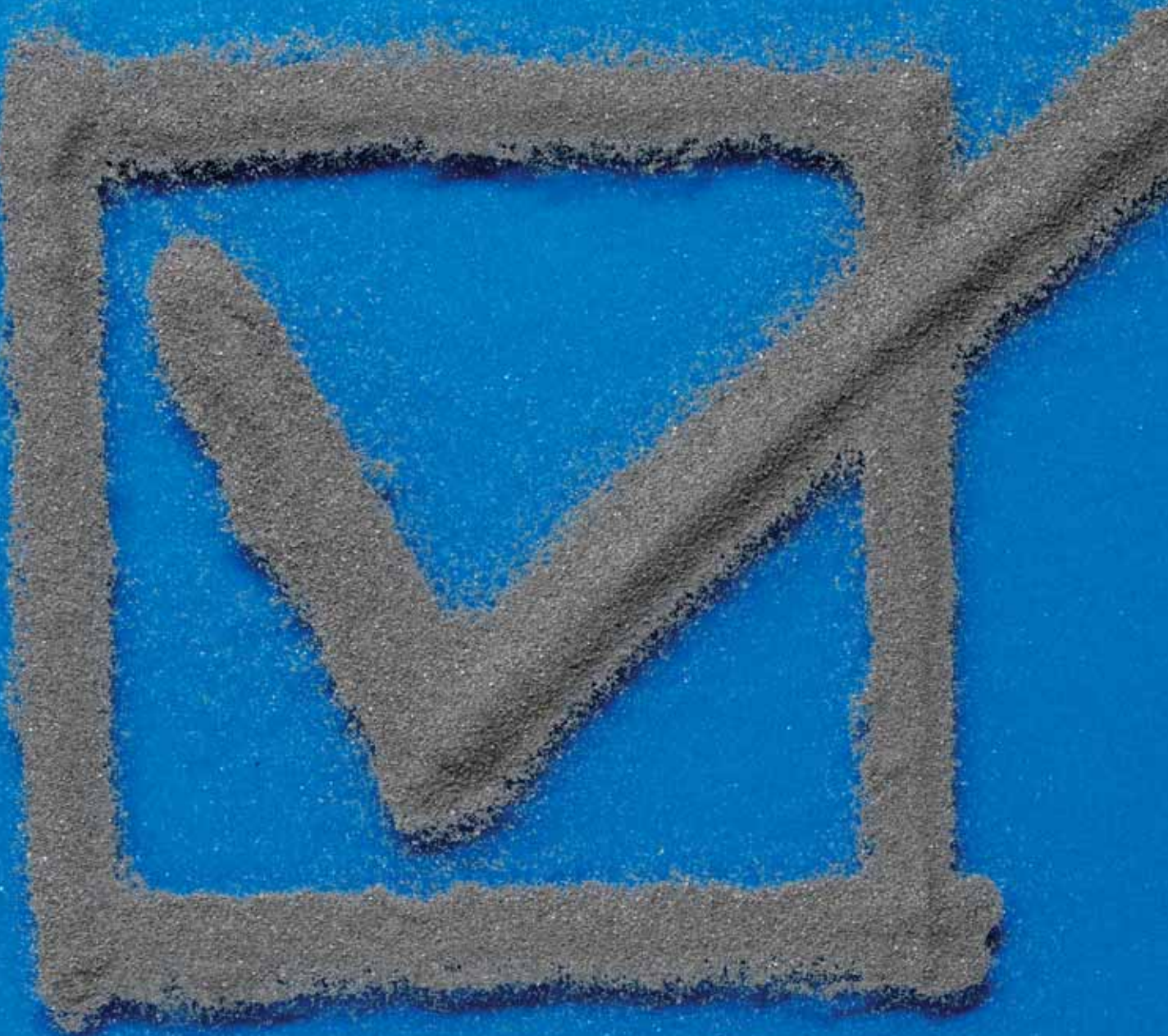


COMPONENTS CASE

ABS motor based on Höganäs Somaloy® wins in Japan. A member of the Toyota Group, Aisin Seiki of Japan is a leading assembly manufacturer to Toyota and other car manufacturers. A few years ago they were forced to compete against one of their Japanese competitor's newly developed laminated steel design for ABS motors. Aisin Seiki knew they needed a new design ABS motor concept of their own. After being introduced to Höganäs Somaloy® they realized that the Höganäs technology presented them with the unique possibilities they needed. To help develop their new concept, they turned to Fine Sinter, a leading PM manufacturer in Japan, and Höganäs. The new ABS motor that was delivered offered 36% reduction in axial length, 17% weight reductions and some 20% increased power density. It also helped Aisin Seiki beat the competition, again.



Powering **security-of-supply** from powder





Today's OEMs seek to secure timely deliveries, reduce tied-up capital and sub-manufacture where it is least costly to do so. This results in increasingly complex supply chains, greater demands for precision and increasing vulnerability to disturbances in the flow of goods. Even small delays can have costly repercussions. OEMs must be able to rely on their component manufacturers as well as materials suppliers to a greater extent than before.

Höganäs powering security-of-supply

Like Höganäs, many OEMs are global corporations operating on the principle of internationally equivalent supply, production as well as delivery routines and facilities. In part, security-of-supply means being absolutely certain that the production process will receive the right quantity of metal powder, manufactured to specified quality levels, delivered at the right time – all of the time. So ensuring the efficient supply of consistently high quality metal powder is the essential starting point. This results in OEMs placing additional demands on sub-suppliers like Höganäs, such as demonstrating stability of product quality with minimal variations in characteristics.

Vendor managed inventory

In 2006, Höganäs began to offer selected large volume customers a vendor managed inventory service. This is an example of Höganäs' commitment to supporting its customers operational reliability by ensuring them of security-of-supply. For customers, vendor managed inventory agreements mean:

- Reducing tied-up capital (from in-house inventory)
- Ensuring security-of-supply as lead times can be eliminated
- Less administration and a decrease in related costs
- Continued high delivery performance

The benefits of vendor managed inventory agreements for Höganäs include better production planning, which contributes to both lower production and total costs. They

also facilitate better forecasting, less variations in purchasing, increased precision in logistics as well as less capital tied-up in Höganäs' own stocks.

98% delivery precision

Höganäs meets all relevant quality standards and operates at 98% delivery precision all around the world. Höganäs uses common standards to gauge quality in ensuring tolerances as well as keep pace with customer demands for traceability, reproducibility and low levels of raw material or supply chain variability.

CONSUMABLES CASE



20 years of excellence with Eaton continues.

The Eaton Corporation is the world's leading supplier of valves to the automotive industry. Since 1986 Höganäs has partnered with Eaton in supplying high alloy powders based on iron, cobalt and nickel for valve surfacing applications. What's more, Höganäs has acted as a partner for material and process improvements to achieve cost reductions, improve technical aspects of welding and to create more efficient coating systems. Among the many process achievements realized over the

years has been Eaton achieving worldwide standardization for valve coating materials and equipment. Standardization has enabled Eaton to focus their efforts on improving their operational efficiencies and meant significant reductions in processing disturbances.

An important milestone to standardization was the introduction of powder from the Hogap process in all Eaton plants. This process yields powders with less contaminant than conventional processes and also significantly improves flow rates. This has enabled Eaton equipment to be run using more efficient parameters and to allow smoother coatings and faster deposits. For Höganäs, the partnership has meant gaining economies of scale in production as well as eliminating risks related to materials variance even in the face of more stringent requirements. Since 2003 Höganäs has managed a zero defect rate on supplies to Eaton, which includes supplying to eight plants located on four continents. The close co-operation has also resulted in Höganäs being awarded Supplier of the Year awards three times from Eaton, including again in 2006.



Safety, health and environmental regulations are increasing both in magnitude and number. To respond to governmental demands for enhanced environmental performance, Höganäs expects more and more OEMs to look for the most environmentally responsible components and processes available.

Höganäs powering environmental improvements

PM is energy efficient and saves up to 50% of the energy consumed when producing comparable components from metal castings. Material utilization is very high, at almost 100%, while other metal forming approaches generate up to 50% more wastage. Even today's rising raw metals and energy costs speak for PM, compared to other metal forming technologies.

Resources consumption and environmental impact

The company pursues reduced specific consumption of resources and environmental impact. Höganäs' own production is largely based on recycled materials. About two thirds of the production is based on recycled scrap, the remaining one-third is based on iron ore.

Cutting emissions

Höganäs is conducting long-term activities to reduce emissions into the air. Emissions expressed as kilograms per ton of produced material have progressively been reduced since the mid-1980s. Höganäs utilises the ISO 14001 based environmental management system as a tool in its production

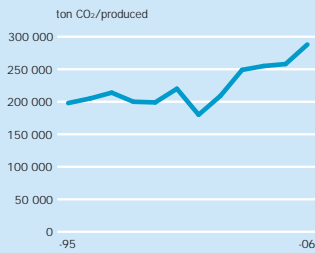
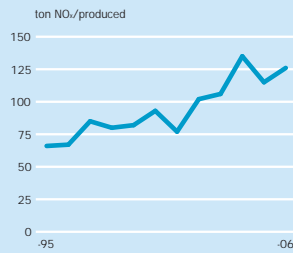
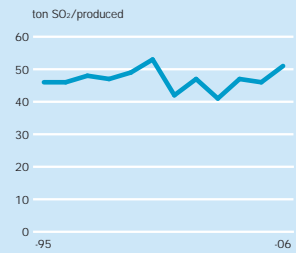
facilities as well as to conduct the company's environmental issues in a systematic manner. All Höganäs facilities in Sweden, Belgium, England, the US, India and Brazil are currently ISO 14001-certified. Emissions of CO₂ is an unavoidable consequence of producing iron and steel because carbon is a part of the production process. Trading in CO₂ emission rights, which began in the EU in January 2005, is intended to reduce emissions. The emission rights are allocated free of charge in the pilot period of 2005–2007 and surpluses are saleable. Emission rights must be purchased when potential shortages arise. The trading system affects the Halmstad plant and the sponge and powder plants in Höganäs. The company requested and received emission rights for 956 600 tons of CO₂ in the pilot period, an amount considered sufficient for this period.

Permits

Permits are mandatory for producing metal powder in all countries where Höganäs has manufacturing. These mainly regulate production volumes, airborne and waterborne emissions, noise and waste and apply for a predetermined period, or until further notice on all production facilities.

Key environmental initiatives in 2006

Höganäs began preparing for the new European regulation on chemicals management initiative called REACH (Registration, Evaluation and Authorisation of Chemicals), which will commence in 2007. Being introduced throughout Europe, REACH imposes new duties on each organisation in the

CO₂ emissionsNO_x emissionsSO₂ emissions

supply chain. In practice this means that all chemical substances that are manufactured or imported into the EU in quantities greater than 1mt per annum will need to be registered at a newly established chemicals agency in Helsinki, Finland. To ensure it is in full compliance with REACH, Höganäs is running a two-year project that involves the development of a strategy and action plan for registration and the creation of a portfolio of substances.

Other environmental initiatives taken in 2006

At facilities in Höganäs (Sweden)

- Construction of a recycled heat network for delivery to an external district heating company and reduction of carbon dioxide discharge by 12 000 tons per year was on-going (see right)
- Natural gas consumption from conveyor ovens decreased following the installation and optimization of new combustion equipment

At facilities in Halmstad (Sweden)

- The process filter serving off gas collection from the electrical arc furnace has been enlarged with a new filter section, allowing a better work environment as well as a reduction of dust emissions
- The atomizing station has been equipped with a new off gas collection and filter to reduce dust emissions

At the Johnstown facility (US)

- Construction of a landfill methane recovery facility that will positively influence future energy needs and can potentially offer annual cost savings (see right)

Höganäs' environmental policies can be download at:
www.hoganas.com

ENVIRONMENTAL IMPROVEMENTS



Waste heat keeping Höganäs residents warm. The production of metal powder involves the reduction of iron ore and raw powder from scrap in natural gas-fired furnaces at temperatures of up to some 1 000°C.

Previously, a small portion of the waste heat from this process was utilized to heat Höganäs' own premises, with most released to the surrounding air through production facility chimneys. However, after several years of discussion with the municipality, the construction of a municipal district heating network began in 2005. The first stage was completed in May 2006 and the second is scheduled for completion in late-2007. This will enable waste heat to be utilized, keeping Höganäs residents warm. Alongside the new district heating network, this will mean a sharp reduction in the municipality's CO₂ emissions.

ENVIRONMENTAL IMPROVEMENTS



North American Höganäs joins economic and environmental initiative. To recover waste landfill methane gas from local landfills, North American Höganäs is teaming up with the Johnstown Regional Energy, LLC (which consists of five local companies). The purpose of the initiative is to build landfill methane recovery facilities that will secure a long-term, reliable, competitively priced source of landfill gas for production facilities. North American Höganäs is confident that the solution delivered appeals to all concerned parties

from both social and business perspectives. From a social perspective, North American Höganäs will be able to reduce CO₂ emissions as well as contribute to the alternative energy source development that is essential for the future energy needs. From a business perspective, North American Höganäs will secure a less expensive source of energy for a long time. This is important as natural gas prices have dramatically increased in recent years. The Höganäs team involved confirms that the gas quality meets existing relevant requirements and that there is a tremendous potential for savings per year, depending on gas prices. State and local governmental authorities fully support this project because of the green energy potential along with the energy savings for local manufacturers and are providing financial support. Construction of the landfill methane recovery facilities is now underway and is expected to be complete by summer 2007.



Human resources



Höganäs is the world's leading metal powder supply partner to customers all around the world. Every working day the competences, actions and commitment of Höganäs employees allow the Company to maintain and improve its leadership status.

Significant investments made in human capital

All Höganäs employees are viewed as an important investment in the company's future. Recruiting and retaining skilled, properly motivated and well-qualified staff are critical factors to the ultimate success of Höganäs.

Multicultural diversity

Present in all parts of the world, Höganäs benefits from being a multicultural organization and takes pride in actively fostering diversity. During 2006 an updated Code of Conduct has been put into place. It can be downloaded at: www.hoganas.com.

Empowerment and accountability

A new organization has been implemented in which empowerment and accountability are key elements. The new organization has resulted in employees identifying better ways of working. In turn, this is opening up new opportunities for long-standing employees of Höganäs as well as a number of key new employees with complementary and desired skill sets that have recently joined the Group in different parts of the world.

Höganäs Business Academy and individual development

Höganäs strives to ensure all staff members enjoy the opportunity for stimulating work that offers scope for development proceeding from the company's strategic intentions and the individual employees own circumstances. For this reason, Höganäs continuously concentrates on increasing the company's knowledge level through individual development plans, training and skill-set development programmes. One example of a recent and on-going initiative is the Höganäs Business Academy programme. Initiated in 2005 and launched in 2006, its aim is to:

- Familiarize employees with the company's strategic intentions
- Engage discussion amongst cross-functional teams
- Encourage staff members to add tactics that reinforce the company's strategy

So far the programme has been mainly provided to sales and marketing staff. However, the positive experiences and results have initiated the expansion of the programme into other organizational areas and disciplines.

Risk management



Höganäs' approach to risk management encompasses identifying risks the group is exposed to, what can be done to prevent or minimize exposure as well as how to best allocate resources and insurance policies to reduce emerging risks to an acceptable level. The aim is to continually assess and manage all risks in the businesses and appropriately structure Group operational and financial arrangements.

Operational risks

Commercial risks encompass production, product, supply, price and payment risks. Some of these risks are internal, others external. Line managers in sales, production, logistics, development and QA manage commercial risks. The Group's broad customer base and geographical diversification minimises its dependence on individual customers or customer groups. Accordingly, the loss of any single customer would not seriously affect the Group's profitability.

Purchasing risks encompass delivery, quality and pricing risks for strategic materials and energy. Each production facility's procurement function is responsible for managing these risks, while the parent company's procurement function is responsible for co-ordinating procurement and managing certain metals and other strategic goods. A thorough review of each supplier's ability to satisfy Höganäs' challenging standards precedes its choice of supplier. Höganäs would not be seriously affected if any single supplier were unable to satisfy its required standards.

Production units and the Group's environment and safety functions manage plant-related and environmental risks. These activities are conducted systematically with the aid of accredited management systems. Risks relate to the business cycle, politics and competition and are mainly directed by subsidiary management, with support from Group management. The progress of these risks has a large impact on how the Group's strategic plans are formulated. Höganäs' IT and human capital risks are managed by the Group's central IT, HR and safety functions.

Legal risks

Höganäs is occasionally involved in legal disputes with varying degrees of risk relating to its business. As a result of its operating activities, Höganäs is party to legal processes and administrative procedures relating to liabilities for the environment, health, safety and more. Höganäs has made provisions for costs in its Brazilian operations of about 41 MSEK, where most is VAT-related. Besides this, none of these are of considerable significance. There is considerable risk of plagiarizing or replicating new products and processes. Therefore, Höganäs has an active strategy to patent technical innovations attained within the company. Intangible risks are managed by the Group's central R&D function.

Financial risks

The Höganäs Board of Directors controls and monitors its finance policy, which both provides the framework for how various types of financial risk should be managed as well as defines the risk exposure to which operations are pursued. The main objective is to maintain a low risk profile. Financing activities are centralised at Höganäs AB's finance unit. This unit is accountable for the Group's financial risk management and functions as Group treasury. Currency/interest and metal derivative instruments are also used, pursuant to mandates from the Board of Directors, currency committee and Group management.

Höganäs' accounting currency is SEK. As a significant portion of Höganäs' capital employed is denominated in foreign currency, borrowing is mainly sourced in these currencies directly. As an alternative, various derivatives are used to ensure effective hedging of capital in convertible currencies. Interest swaps are also used to control interest fixings of net borrowings.

Operational excellence



Operational excellence is a constant focus at Höganäs and contributes to delivering lowest total costs to customers. Operational excellence initiatives are based on reducing working capital, reducing direct costs, improving quality, achieving operational improvements, increasing delivery precision and boosting operational efficiency. During 2006 Höganäs introduced structured continuous improvement teams at all Group companies to further stimulate local initiatives and improvements.

Reducing working capital

Reducing inventory levels, accounts receivables as well as accelerating account payables are parts of an on-going initiative to reduce working capital throughout all Höganäs manufacturing facilities. Höganäs in Sweden and North American Höganäs delivered some of the most impressive returns in terms of reducing tied-up capital during 2006. Efforts to reduce inventory levels have led to reviewing stock levels and logistic aspects as well as investigating opportunities for reducing stock to fewer and more strategically located centres.

Cost reduction

Procurement of raw materials

The Höganäs group now co-ordinates its global supply flows more intensively than before. From an operational perspective, supply spans procurement, production and logistics across a range of regional facilities. The relevant functions are integrated at the Group head office in Sweden. In terms of raw materials procurement during 2006 Höganäs Brasil and North American Höganäs were able to

use less expensive scrap for certain products. However, important raw metals such as nickel and copper reached new price highs in 2006 and pricing was again volatile. Globally, nickel prices went from below USD 15 000 per ton in early 2006 to over USD 20 000 at mid-year, to settle at USD 34 000 at year-end.

Manufacturing costs

Energy and transportation prices are important contributors to Höganäs manufacturing costs. Some of the 2006 activities to combat energy costs included:

- Installing new burner nozzles in annealing furnaces used at several regional facilities to decrease natural gas consumption;
- Changing atomizing parameters, new cooling zones and on-line control of atmosphere in annealing furnaces used at several regional facilities to increase capacity;
- Implementing an energy savings programme which has resulted in implementing more energy efficient processes to enhance equipment utilization and manufacturing effectiveness.

These activities have successfully reduced energy consumption per ton produced. In addition, the Group reviewed and selected new transportation contracts during 2006 and these delivered significant reductions. However, these activities have not yielded reductions sufficient to fully offset energy price increases experienced during 2006.



Quality

Höganäs seeks to deliver the highest possible quality in all aspects of its operations. The whole organization pursues this quality philosophy, in all processes from product development to monitoring results with customers, and ensuring the lowest total cost for the customer. One of the 2006 initiatives was the implementation of common products throughout regional facilities. This allows customers be assured of receiving the same quality metal powders, independent to where those are produced. For Höganäs this provides more flexibility in optimizing its global manufacture resources.

Some of the quality standards to which Höganäs complies with include:

- All of the facilities operate according to ISO 9001:2000;
- As of year-end 2006 Höganäs operations in Europe, North America, and India have achieved ISO/TS 16949 approval. The ISO/TS 16949 approval process is on going in all other regions. ISO/TS 16949 is a globally accepted quality requirement used in the automotive industry;
- In 2006 the group initiated compliance with OHSAS 18001 for all of its facilities. This is a specification for Occupational Health and Safety (OHS) management systems. The specification was developed to provide a model for OHS management systems and their internal or external assessment and/or certification in the absence of a suitable international (ISO) standard.

Continuous operational improvements

Continuous operational improvements help Höganäs act as a valuable partner to its customers as well as offer high-value and competitively priced products. Some of the activities during 2006 included:

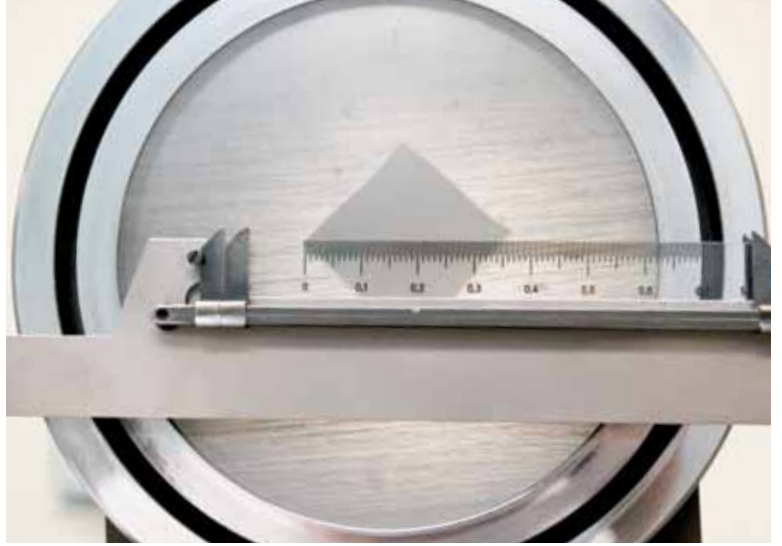
- Implementation of 5S initiatives have resulted in a more structured way of working;
- Implementation of best practice routines in all operations.

Delivery precision

Höganäs maintains a world-class supply performance. Globally, the group operates with no less than 98% delivery precision.

Operational efficiency

A lot of effort has been directed towards improving Höganäs' operational efficiencies in terms of its total availability, asset utilization and quality. This has resulted in capacity improvements and postponement of capacity investments.



Manufacturing facilities

Plant	Location	Powder orientation
Höganäs	Sweden	Iron powder
Halmstad	Sweden	Iron powder, atomizing
Ath	Belgium	High alloys
Tonbridge	United Kingdom	High alloys
Stony Creek	USA	Iron powder
Niagara Falls	USA	Iron powder
Johnstown	USA	High alloys
Mogi das Cruzes	Brazil	Iron powder
Jacarei	Brazil	Iron powder
Ahmednagar	India	Iron powder
Shanghai	China	Iron powder
Saitama	Japan	Iron powder, mixing

Manufacturing

Höganäs can supply customers with the same technical support and powder grades from several different production facilities. The company offers a more comprehensive product portfolio than other metal powder producers. At the same time, a large proportion of all the Group's metal powders are delivered as customer specific mixes; having increased from 38% of Component sales in 1996 to 57% in 2006.

A primary goal for Höganäs is to ensure all production facilities follow standardized operational routines and quality standards. Höganäs already has equivalent production processes in America, Europe and Asia for several products, providing stable products with minimal variations.

These activities are now continuing and intensifying, because they imply a significant competitive edge. The Group's multinational customers can produce their components without quality problems, regardless of where the metal powder is produced within the Group. This also means advantages for Höganäs, through channels including increased flexibility of production and purchasing raw materials, and enhanced prospects of exploiting the Group's production facilities optimally.



Höganäs operational excellence, in practice

Long lasting bricks power security-of-supply and cost reductions in India. At Höganäs India, a special task force found a way to deliver significant cost reductions in the arc furnace operation. But that is not all. By extending the effective functioning life of the refractory bricks used in their plant's arc furnace, the team helped avoid unexpected failures of linings, improved equipment availability by six shifts per month and improved energy efficiency. The solution has helped ensure security-of-supply to all their iron powder customers. Plus, it has also helped to minimise bottlenecks in producing atomised powders in the short run.



North American Höganäs discovers pallets can hold cost-savings, too. In North America, pallets have long been used to hold and store customer orders. Depending on the customer, the size of the pallets would vary. After shipments were made, large quantities of various sized pallets would pile up. The question a team of Höganäs employees looked into: what could be done with unwanted scrap pallets? First, the team initiated a programme with customers to standardise pallet sizes. Next, they found neighbouring businesses that would take the scrap pallets without charge. The results? Housekeeping at the facility is now significantly improved and eliminating 80% of the pallets has reduced a potential safety problem and costs.



Höganäs share



The Höganäs share is listed on the Mid cap list of the Nordic Stock Exchange. Höganäs share capital is SEK 175 494 660. There is a total of 35 098 932 shares, of which 981 000 class A shares and 34 117 932 class B shares with a quotient value of SEK 5 per share. The shares possess equal rights to participation in the company's assets and earnings. Each class A share has ten votes, while each class B share has one vote. Only the class B share is quoted on the Nordic Stock Exchange. A trading lot of Höganäs AB amounts to 100 shares. The adjacent tables illustrate Höganäs' ownership structure and division between the share classes.

Market capitalization and value growth

Höganäs' share price was SEK 179.50 at the end of the financial year, and thus, Höganäs' market capitalisation was MSEK 6 124. At year-end 2005, the share price was SEK 172, equivalent to market capitalisation of MSEK 5 868. The share rose by 4% in 2006. This can be compared to the OMX S30 Index, which rose by 19.5% in the same period.

Turnover

During the 2006 financial year 18.4 million Höganäs shares were turned over for a total value of MSEK 3 399, down 16% on the previous year. The rate of turnover was 51%, against the stock market average of 132%.

Dividend Policy

The Board of Directors' intention is to maintain annual dividends of approximately 30–50% of net income. The dividend level should be adapted to Höganäs' earnings levels, future outlook, cash flow, investment requirement and other relevant factors. Höganäs pursues consistent dividend growth.

Dividends

For the financial year 2006, the Board of Directors is proposing dividends of SEK 6.25 (5.75) per share at the Annual General Meeting, corresponding to 54% of net income.

Share buy-backs

Höganäs did not buy back any shares in 2006. Höganäs' holdings of treasury shares were 301 300 – or 0.9% of the total number of shares – at year-end.

History of the share

The Höganäs share has been quoted on the Stockholm Stock Exchange A-list since 1994 and is today listed on the Mid-cap list on the Nordic Stock Exchange. Höganäs was quoted on the Stockholm Stock Exchange as early as 1903, when it was called Höganäs-Billesholms AB. In 1987, Lindéngruppen AB acquired all the shares of Höganäs AB, resulting in a de-listing. The Höganäs share was re-launched on the Stockholm Stock Exchange in April 1994.

Höganäs AB's ten largest shareholders

Shareholder	2006-12-29	% of vote*	% of share capital
Lindégruppen	7 650 000	37.8	21.8
AB Industrivärden	3 550 000	8.1	10.1
If Skadeförsäkring AB	3 184 100	7.3	9.1
Alecta	2 778 000	6.4	7.9
Marathon Asset Management	2 342 330	5.4	6.7
Didner & Gerge aktiefond	1 700 000	3.9	4.8
Swedbank Robur fonder	797 175	1.8	2.3
SHB/SPP fonder	774 057	1.8	2.2
Kammarkollegiets fondförvaltning	537 000	1.2	1.5
Lannebo fonder	431 000	1.0	1.2

* Höganäs' holdings of 301 300 treasury shares are not included in the percentages of capital or votes

Share Capital History

	1994	1998 Bonus Issue	2001 Cancellation
Change in no of shares		12 750 000	-3 151 068
Total no of shares	25 500 000	38 250 000	35 098 932
Change in Capital		63 750 000	-15 755 340
Total Capital, SEK	127 500 000	191 250 000	175 494 660

Financial Analysts monitoring the Höganäs share

Company	Analyst
ABG Sundal Collier	Erik Ejerhed
ABN AMRO	Klas Berglind
Carnegie Investment Bank AB	Anders Idborg
CAI Cheuvreux	Patrik Sjöblom
SEB Enskilda	Anders Trapp
Handelsbanken Capital Markets	Hampus Engellau
Kaupthing Bank	Nina Glibberg
Kaupthing Bank	John Hernander
Swedbank	Mats Larsson
Öhman Fondkommission	Anders Roslund

Shareholdings by size, 29 December 2006

Holding	No.Shareholders	No. Of Shares	%
1-500	6 599	1 095 335	3.12
501-1 000	668	548 061	1.56
1 001-5 000	448	1 047 476	2.98
5 001-100 000	204	4 716 571	13.44
100 001-	28	27 691 489	78.90
Totalt	7 947	35 098 932	100.00

Key indicators

Adjusted for share issues	2006	2005	2004	2003	2002
Earnings per share, SEK*	11.54	8.39	12.80	10.40	9.70
Cash flow after investment per share, SEK*	12.30	5.50	12.30	-3.40	15.80
Shareholders' equity per share, SEK*	75.40	73.30	64.40	57.70	53.40
Dividend per share, SEK	6.25**	5.75	5.75	5.00	5.00
Year-end share price, SEK	179.50	172.00	178.50	153.00	165.00
Dividend yield, %***	3.5	3.3	3.2	3.0	3.0

* Pursuant to definition on page 43.

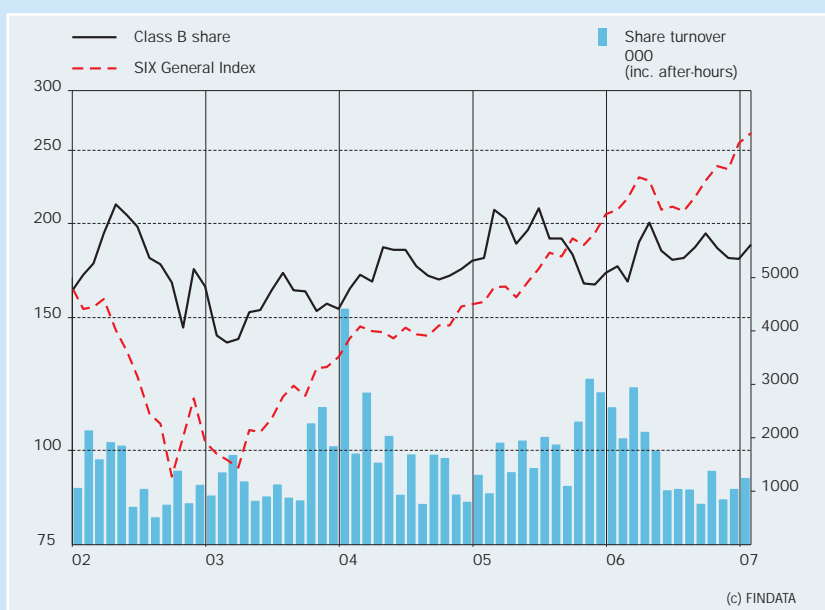
** Pursuant to Board proposal.

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

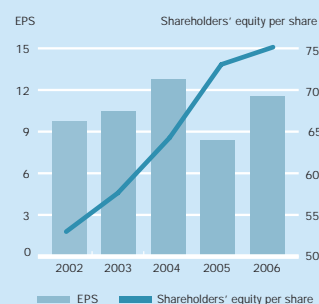
Number of shares

Share Class	No of Shares	No of votes	% of share capital	% of votes
A	981 000	9 810 000	2.79	22.33
B	34 117 932	34 117 932	97.21	77.67
Total	35 098 932	43 927 932	100.00	100.00

Höganäs' share price performance and turnover



Earnings and shareholders' equity per share, SEK



Directors' Report in summary

The Board of Directors and Chief Executive Officer of Höganäs AB (publ), corporate identity number 556005-0121, with registered office in Höganäs, Sweden, hereby submit the Annual Report for the financial year 2006.

Earnings from operations in the year and the parent company's and group's position is stated in the Directors' Report, the following Income Statements and Balance Sheets, the Notes and comments.

Operations

As a step towards an increasing market focus, Höganäs has opted to monitor and report on operations from a market perspective from 2006 onwards. 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 70 per cent of group sales and Consumables approximately 30 per cent.

Ownership Structure

Lindéngruppen AB, with 21.8 per cent of the share capital and 37.8 per cent of the vote, is the main shareholder. Lindéngruppen is represented on the Board by Jenny Lindén Urnes and Oystein Krogen.

Financial overview

Consolidated net sales were MSEK 5,123 in the year, an increase of 12 per cent. The increased sales are largely attributable to rising volumes and implemented price increases. A new pricing model was introduced in Europe in the third quarter, implying that the time delay relating to the implementation of metal prices reduced from two to one quarter. This new model had a minor impact in the third and fourth quarters. Currency effects resulting from a stronger SEK had a 1 per cent negative impact on sales.

Volumes rose by 9 per cent compared to the previous year. Höganäs achieved good volume growth on all markets except China and Taiwan.

Car sales and car production in North America declined slightly compared to the corresponding period in the previous year. The North American powder market remained weak in 2006. The trend towards smaller and more fuel-efficient vehicles, combined with the two leading US car manufacturers losing market shares, implied that the US powder market contracted in the year. The US powder market represents around half of the global market. The European market continued to recover.

Operating income for 2006 was MSEK 602 (461). Excluding the non-recurring items stated below and net earnings on currency forwards contracts, earnings were MSEK 513 (455), an increase of 13 per cent. Increased volumes and implemented price changes had a positive effect on earnings. Rising energy prices had an adverse impact on earnings. Prices of scrap, nickel and copper rose in the year, with an adverse impact on earnings. In the second half-year 2006, nickel prices rose from approximately USD 20,000/ton to USD 34,000/ton at year end. This influenced Component's earnings adversely as there is a time lag from metal price increases and pricing to customers. Consumables' earnings only experienced a marginal impact as the change in prices is reflected more quickly in this area. Operating income was also adversely affected—disregarding currency forwards contracts—by approximately MSEK 40 as a result of falling JPY and USD exchange rates.

Other operating income and operating costs were MSEK 75 (180) and include earnings on currency forwards contracts of MSEK 73 (129) and non-recurring items. Of total non-recurring items charged to operating income, representing a net figure of MSEK 16, tax costs in Brazil were MSEK 20, capital gains from a product area in Brazil MSEK 10 and MSEK 26 from the sale of CO₂ rights. Income before tax was MSEK 525 (408). The provision in Brazil had an adverse impact on net financial income/expenses of MSEK 21. The non-recurring items influenced income before tax by MSEK -5 (-124).

Return on capital employed was 15.5 per cent (12.0) and return on equity was 15.5 per cent (12.2).

The equity/assets ratio at year-end was 51.5 per cent, against 48.5 per cent at year-end 2005. Shareholders' equity per share was SEK 75.40, against SEK 73.30 at the beginning of the financial year.

Consolidated financial net debt at year-end was MSEK 1 009, a MSEK 378 decrease since the previous year-end. This is a result of the earnings figure combined with the capital rationalisation program that has been underway since autumn 2005.

Net financial income/expenses was MSEK -77 (-53), of which the tax provision for Brazil had an adverse impact of MSEK 21.

Cash flow from operating activities was MSEK 626, against MSEK 423 for the corresponding period of the previous year. Capital expenditure on fixed assets was MSEK 219 (260). Emission rights were divested in the year, with a cash flow impact of MSEK 30. Funding activity influenced cash flow for the period by MSEK -442 (-152) as a result of dividend paid of MSEK -200 and net changes to borrowing of MSEK -242.

Significant events in, and after, the financial year

Höganäs made provisions of MSEK 41 in the year, relating to a tax dispute in Brazil, of which MSEK 20 was posted to operating income and the remainder to net financial income/expenses. The majority of this provision relates to sales tax on the import of machinery to Brazil in connection with building up the operations after the 1999 acquisition. The majority is attributable to the fact that the forwarding agent used when transporting the machinery did not pay the sales tax, despite the fact that this had been advanced by Höganäs.

A minor product area in Brazil was divested in the year, generating capital gain of MSEK 10. Earnings from the sale of emission rights amounted to MSEK 26.

Board member Magnus Lindstam resigned from the Board at the beginning of 2007.

The Board intends to propose that the AGM 2007 adopt a resolution relating to a performance-based stock option program with the purpose of offering key group executives the opportunity of future stake holding in the company, thereby enhancing their interest in and commitment to the company's operations.

Research and development operations

Höganäs is leading progress in the iron and metal powder sector; its objective is to always be first with new products. A significant part of research is in collaboration with sub-contractors, customers, end-users, universities and research institutions. The company spends about one and a half per cent of net sales on developing new products and solutions.

Including technical customer service and support, and Höganäs' internal process re-engineering, the group's total R&D amounts to just over 2 per cent of net sales, or 3 per cent of total operating expenses. Höganäs already has Tech Centres in Sweden, the US and China.

Financial instruments and risk management

Höganäs' Finance Policy, controlled and monitored by the Board of Directors, state the framework for the management of financing and other types of financial risk. The Policy defines the risk exposure to which operations are conducted.

Environmental information

Höganäs conducts operations that are liable for 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. Thus, Höganäs has all the necessary permits for all operations, and does not see any need for any new evaluation to be conducted in 2007. For more information, see page 25.

Höganäs AB is adapting its operations to conform to new European legislation in the chemicals area, REACH (Registration, Evaluation and Authorisation of Chemicals), which becomes effective on 1 June 2007. Far-reaching requirements to audit health hazards and the potential environmental impact of component substances in products will apply throughout the production chain. Virtually all substances manufactured in or imported to Europe in quantities over one ton will have to be registered with a European authority established in Helsinki, Finland. Höganäs AB is implementing a two-year strategic project aimed at ensuring that the company's European operations are able to continue and progress within the REACH framework.

Human capital

A new organisational structure was implemented, with authority and responsibility being key elements. The new organisational structure has allowed Höganäs' employees to develop improved working methods. The Höganäs Business Academy was launched in 2006, with the objective of informing employees of the company's strategic targets, facilitating discussion between teams from different functions and encouraging employees to act to implement the strategy in day-to-day activities.

Acquisitions, transfers and holdings of treasury shares

At the beginning of 2006, Höganäs had 301,300 treasury shares, or 0.9 per cent of the total number of shares. Höganäs did not re-purchase any shares in 2006. The quotient value per share is SEK 5.

Revised accounting principles

The parent company revised its accounting principles by accounting financial instruments in accordance with IAS 39 in the year.

Statement on board activities in the year/corporate governance

The Board's activities are reviewed in the Corporate Governance Report which can be downloaded at www.hoganas.com. 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 44 and the company's website www.hoganas.com.

Expectations of future progress

The positive progress on Asian and South American powder markets is expected to continue as is weaker progress in North America. Progress in Europe is expected to remain stable. The trend towards smaller, more fuel-efficient cars in North America will continue to restrain the growth of press powder. Metal prices are expected to remain volatile in 2007. With these market conditions, Höganäs is expected to attain continued positive volume growth.

Appropriation of profits

Proposed appropriation of profits

The Board of Directors proposes that the funds at the disposal of the Annual General Meeting of SEK 1 331 364 783 are appropriated as follows:


Dividends, 34 797 632 shares * SEK 6.25	217 485 200
Carried forward	1 113 879 583
Total	1 331 364 783

As far as we are aware, the Annual Report has been prepared pursuant to generally accepted accounting principles for listed companies, and the information submitted is consistent with actual circumstances, and no material omissions have been made that could affect the impression of the company created by the Annual Report.


Höganäs, Sweden, 28 February 2007



Per Molin
Chairman


Tony Petersson
Karl-Henry Boo

Arik Danielson
Chief Executive Officer


Jenny Lindén Urnes
Oystein Kroger
Bernt Magnusson
Bengt Kjell
Hans-Olov Olsson
Agnete Raaschou-Nielsen

Consolidated Income Statement

1 January - 31 December

The notes are for the Annual Report 2006, which is available for download at www.hoganas.com

MSEK	Note	2006	2005
Net sales	2	5 123	4 594
Cost of goods sold		-4 085	-3 795
Gross profit		1 038	799
Selling expenses		-188	-213
Administrative expenses		-207	-182
Research and development costs		-116	-123
Other operating income	3	136	204
Other operating expenses	4	-61	-24
Operating income	2,5,6,7,13,25	602	461
Financial income		29	20
Financial expenses		-106	-73
Net financial expense	8	-77	-53
Income before tax		525	408
Tax	9	-123	-118
Net income		402	290
Attributable to:			
Parent company shareholders		401	290
Minority interests		1	0
		402	290
Earnings per share:	21		
Before dilution (SEK)		11.54	8.39
After dilution (SEK)		11.54	8.39

Consolidated Balance Sheet

As of 31 December

The notes are for the Annual Report 2006, which is available for download at www.hoganas.com

MSEK	Note	31 'Dec. '06	31 'Dec. '05
Assets			
Intangible fixed assets	11	221	221
Tangible fixed assets	12	2 422	2 621
Long-term receivables	16	116	54
Deferred tax assets	9	25	53
Total fixed assets		2 784	2 949
Inventories	17	1 241	1 214
Tax assets		20	3
Accounts receivable - trade	18	740	739
Prepaid expenses and accrued income	19	62	49
Other receivables		150	177
Liquid funds	20	102	122
Total current assets		2 315	2 304
Total assets		5 099	5 253
Shareholders' equity			
Share capital	21	175	175
Provisions		-4	121
Profit brought forward including net income		2 453	2 252
Shareholders' equity attributable to parent company shareholders		2 624	2 548
Minority interests			
		1	1
Total shareholders' equity		2 625	2 549
Liabilities			
Long-term interest-bearing liabilities	23,30	1 072	1 473
Other long-term liabilities	24	11	42
Provisions for pensions	25	19	32
Prepaid government contribution		23	-
Other provisions	26	50	40
Deferred tax liabilities	9	427	421
Total long-term liabilities		1 602	2 008
Current interest-bearing liabilities	23	43	4
Advances from customers		1	20
Accounts payable		497	381
Tax liabilities		14	22
Other liabilities		69	42
Accrued expenses and deferred income	28	197	207
Other provisions	26	51	20
Total current liabilities		872	696
Total liabilities		2 474	2 704
Total liabilities and shareholders' equity		5 099	5 253

For information on the group's pledged assets, contingent liabilities and contingent assets, see Note 29.

Consolidated Cash Flow Statement

1 January – 31 December

The notes are for the Annual Report 2006, which is available for download at www.hoganas.com

MSEK	Note	2006	2005
	31		
Operating activities			
Operating income		602	461
<i>Adjustments for non-cash items</i>			
Depreciation and amortisation	11,12	278	276
Write-downs	11,12	-	88
Exchange rate differences		10	-43
Capital gain from disposal		-29	-
Other items		-15	-1
Interest received		24	9
Interest paid		-100	-58
Realised exchange rate differences		49	-79
Income tax paid		-183	-158
Cash flow from operating activities before changes in working capital		636	495
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-112	-50
Increase (-)/decrease (+) in operating receivables		-47	-5
Increase (+)/decrease (-) in operating liabilities		149	-17
Cash flow from operating activities		626	423
Investment activities			
Divestments of subsidiaries, net influence on liquidity		-	11
Acquisitions of intangible fixed assets	11	-1	-29
Divestments of intangible fixed assets		30	-
Acquisitions of tangible fixed assets	12	-218	-231
Divestments of tangible fixed assets		13	-
Acquisitions of financial fixed assets		-21	-
Divestments of financial assets		-	15
Cash flow from investment activities		-197	-234
Financing activities			
Transfer of treasury shares		-	107
Borrowings		22	45
Amortisation of loans		-264	-105
Dividend paid to parent company shareholders		-200	-199
Cash flow from financing activities		-442	-152
Cash flow for the year		-13	37
Liquid funds, opening balance		122	74
Exchange rate differences in liquid funds		-7	11
Liquid funds, closing balance	20	102	122

Five-year overview and quarterly data

FIVE-YEAR OVERVIEW

MSEK	2006	2005	2004	2003	2002
Net sales	5 123	4 594	4 162	3 750	3 249
Operating income	602	461	649	549	505
Net financial income and expenses	-77	-53	-35	-35	-48
Income before tax	525	408	614	514	457
Net income	402	290	438	355	335
Operating margin, %	11.8	10.0	15.6	14.6	15.5
Net margin, %	10.2	8.9	14.8	13.7	14.1
Total assets	5 099	5 253	4 759	4 708	4 205
Shareholders' equity	2 625	2 549	2 203	1 974	1 827
Capital employed	3 736	4 058	3 617	3 701	3 263
Return on capital employed, %	15.5	12.0	17.8	15.8	15.0
Return on equity, %	15.5	12.2	21.0	18.7	18.8
Equity/assets ratio, %	51.5	48.5	46.3	41.9	43.5
Net indebtedness	1 009	1 387	1 340	1 651	1 357
Debt/equity ratio, multiple	0.38	0.54	0.61	0.84	0.74
Risk capital/assets, %	59.9	56.5	56.1	51.7	53.8
Interest coverage ratio, multiple	7.8	8.7	18.5	15.7	10.5
Rate of capital turnover, multiple	1.32	1.13	1.14	1.08	0.96
Operating cash flow	429	178	121	446	518
Cash flow after investments	429	189	421	-117	512
Investments	219	260	271	306	328
Average number of employees	1 579	1 572	1 592	1 649	1 426
Net sales per employee	3.29	2.92	2.61	2.27	2.28

QUARTERLY DATA

MSEK	Q1	Q2	Q3	Q4	Total
2006					
Net sales	1 310	1 314	1 266	1 233	5 123
Operating income	164	141	151	146	602
Operating margin, %	12,5	10,7	11,9	11,8	11,8
Income before tax	150	107	130	138	525
Net income	110	78	95	119	402
Earnings per share, SEK	3.17	2.24	2.71	3.42	11.54

Definitions

Operating margin

Operating income in relation to net sales.

Net margin

Income before tax in relation to net sales.

Capital employed

Total assets less non-interest-bearing liabilities, deferred tax liabilities and other provisions.

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.

Equity/assets ratio

Total shareholders' equity in relation to total assets.

Financial net debt

Interest-bearing provisions plus interest-bearing liabilities less liquid funds.

Debt/equity ratio

Interest-bearing debt less liquid funds and other interest-bearing receivables in relation to shareholders' equity.

Risk capital/assets

Total shareholders' equity and deferred tax liability in relation to total assets.

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.

Rate of capital turnover

Net sales divided by average capital employed.

Operating cash flow

Cash flow after investments but before acquisitions or divestments of companies/operations.

Investments

Investments in fixed assets excluding acquisitions.

Earnings per share, SEK

Net income in relation to average number of shares, adjusted for share buy-backs pursuant to IAS 33.

Shareholders' equity per share, SEK

Shareholders' equity in relation to the number of shares at year-end adjusted for share buy-backs.

Cash flow after investments, SEK/share

Cash flow net of investments in relation to average number of shares adjusted for share buy-backs.



Per Molin



Bengt Kjell



Oystein Krogn



Jenny Lindén Urnes



Bernt Magnusson



Hans-Olov Olsson



Agnete Raaschou-Nielsen



Alrik Danielson



Karl-Henry Boo



Tony Petersson



Carina Bergkvist



Gary Paulsson

Board of Directors

Per Molin

Born 1937
B.Sc. (Eng.)
Board member since 1994
Chairman since 2006
Board member of Siemens AB
Previous positions: CEO of Avesta Sheffield AB
Höganäs shareholdings: 5 000

Bengt Kjell

Born 1954
B.Sc. (Econ.)
Board member since 2006
Deputy CEO AB Industrivärden
Chairman of the Board of Kungsleden AB and Indutrade AB
Board member of Pandox AB, Munters AB, Isaberg Rapid AB and Helsingborgs Dagblad
Previous positions: Corporate Finance Manager Securum and Senior Partner of Navet Affärsutveckling AB
Höganäs shareholdings: 0

Oystein Krogen

Born 1966
M.Sc. (Management), B.Sc. (Physics),
M.Sc. (Elementary Particle Physics)
and Ph.D. (Engineering)
Board member since 2006
In charge of development of Electrical Motors within the Danaher group.
Previous positions: CTO, Head of R&D API Elmo AB/Danaher Motion Flen AB, research engineer Höganäs AB
Höganäs shareholdings: 0

Jenny Lindén Urnes

Born 1971
B.A. (Phil.)
Board member since 2004
Chairman of the Board and CEO of AB Wilh. Becker
Chairman of the Board of the Färgfabriken Foundation, Becker Acroma Group AB and Becker Industrial Coatings AB
Board member of Col Art Investment Ltd
Previous positions: Board assignments in AB Wilh. Becker with subsidiaries
Höganäs shareholdings: 0

Bernt Magnusson

Born 1941
M.Pol.Sc.
Board member since 1994
Chairman of the Board of Swedish Match AB and Kwintet AB
Board member of Fareoffice AB, Coor Service Management AB, Net Insight AB, Pharmadule AB, Nordia Innovation AB and Volvo Car Corporation.
Previous positions: Deputy CEO of Swedish Match AB, CEO of Match Division, Switzerland, CEO and President of Nordstjernan AB, Chairman of the Board and CEO NCC AB, Chairman of the Board Nobel Industrier AB, Assi Domän AB and Skandia AB
Höganäs shareholdings: 17 500

Hans-Olov Olsson

Born 1941
Ph.D. (Econ.)
Board member since 2006
Chairman of the Board of the Association of Swedish Engineering Industries
Board member of the Confederation of Swedish Enterprise, Lindab International AB, Premier Automotive Group, Vattenfall AB, the Swedish-American Chamber of Commerce, Chairman of the Gothenburg School of Economics' advisory council at the University of Gothenburg, member of the Rotschild European Advisory Board
Previous positions: CEO and Chairman of Volvo Cars, SVP & Chief Marketing Officer of Ford Motor Company, member of Ford's group management
Höganäs shareholdings: 2 000

Agnete Raaschou-Nielsen

Born 1957
Ph.D. (Econ.)
M.A. (Econ.)
Board member since 2003
Director of Aalborg Portland Group
Deputy Chairman of Kuben A/S
Board member of Danske Invest Administration A/S, Danish International Investment Funds and Sydsten AB
Previous positions: within Zacco Denmark A/S, Copenhagen Business School, Carlsberg A/S and Coca-Cola Tapperierna A/S
Höganäs shareholdings: 1 000

Alrik Danielson

Born 1962
B.Sc. (Econ.)
Board member since 2005
CEO and President of Höganäs AB
Board member of Jernkontoret (the Swedish steel industry sector organisation) and the Chamber of Commerce and Industry of Southern Sweden
Previous positions: CEO of SKF do Brazil and Vice President of AB SKF's Industrial Division
Höganäs shareholdings: 1 500

Karl-Henry Boo

Born 1959
Board member since 1993
Senior high school engineering qualifications
Representative of the Swedish Industrial Salaried Employees' Association at Höganäs AB
Höganäs shareholdings: 0

Tony Petersson

Born 1966
Board member since 2006
Chairman of IF Metall, a merger between the Swedish Industrial Workers' and the Swedish Metalworkers' Union at Höganäs AB
Höganäs shareholdings: 0

DEPUTY MEMBERS

Carina Bergkvist

Born 1969
B.Sc. (Eng.)
Deputy member since 2002
Representative of the Swedish Association of Graduate Engineers at Höganäs AB
Previous positions: Safety Engineer at OKG AB, Quality Engineer at Cresita Engineering and Barsebäck Kraft
Höganäs shareholdings: 0

Gary Paulsson

Born in 1965
Deputy member since 2006
Member of IF Metall, a merger between the Swedish Industrial Workers' and the Swedish Metalworkers' Union at Höganäs AB
Höganäs shareholdings: 0



Arik Danielson



Ulf Holmqvist



Sten-Åke Kvist



Annette Kumlien



Per Lagerlöf



Jari Aaltonen



Hans Söderhjelm



B P Vaidya



Per Engdahl



Claudinei Reche



Avinash Gore



Per Lindvall



Carl Eklund



Joon Park



Anders Andersson

Corporate management

Alrik Danielson

Born 1962
B.Sc. (Econ.)
Board member since 2005
CEO and President of Högånäs AB
Board member of Jernkontoret (the Swedish steel industry sector organisation) and the Chamber of Commerce and Industry of Southern Sweden
Previous positions: CEO of SKF do Brazil and Vice President of AB SKF's Industrial Division
Högånäs shareholdings: 1 500

Ulf Holmqvist

Born 1954
B.Sc. (Eng.)
Senior Vice President
Employed since 1988
Previous positions: ABB Robotics
Högånäs shareholdings: 7 500

Sten-Åke Kvist

Born 1942
B.Sc. (Eng.)
Senior Vice President
Employed since 1968
Previous positions: Stora Kopparberg
Högånäs shareholdings: 10 000

Annette Kumlien

Born 1965
B.Sc. (Econ.)
Chief Financial Officer
Employed since 2004
Previous positions: CFO of Pergo AB, various positions within AB Sandvik Steel and Perstorp AB
Högånäs shareholdings: 500.

Per Lagerlöf

Born 1957
B.Sc. (Eng.)
Vice President, Production
Employed since 2001
Previous positions: Procurement Manager of Ericsson and Site Manager of Ericsson, Flextronics
Högånäs shareholdings: 1 000

Jari Aaltonen

Born in 1952
B.Sc. (Eng.)
Vice President, Quality, Environment & Safety
Employed since 1979
Previous positions: Högånäs group in Sweden, Japan and the US
Högånäs shareholdings: 1 000

Hans Söderhjelm

Born in 1955
B.Sc. (Eng.)
Sales Director, Europe
Employed since 1984
Previous positions: research assistant RIT
Högånäs shareholdings: 10 100

B P Vaidya

Born in 1928
B.Sc. (Econ)
Executive Director and acting President, Högånäs India Ltd
Employed since 2002
Board member of Exogen Biosystems Private Ltd. and Peter (S)India Private Ltd
Previous positions: Controller at Wimco Ltd
Högånäs shareholdings: 0

Per Engdahl

Born in 1958
B.Sc. (Eng.)
Vice President, Sales and Business Development
Employed since 1985
Previous positions: SSAB
Högånäs shareholdings: 1 300

Claudinei Reche

Born in 1967
B.Sc. (Econ)
CEO Högånäs Brasil Ltda
Employed since 2005
Previous positions: sales manager Daimler Chrysler and sales director at SKF
Högånäs shareholdings: 0

Avinash Gore

Born in 1954
B.Sc. (Eng.), M.B.A.
President, North American Högånäs, Inc.
Employed since 2002
Previous positions: Alfa Laval AB in India, Africa, Australia and Denmark
Högånäs shareholdings: 0

Per Lindvall

Born in 1950
Management in Lund/INSEAD MBA
President, Högånäs China Ltd
Employed since 2005
Board member Nils Eksandh AB
Previous positions: deputy CEO and Manager of Bacou-Dalloz Hong Kong Co Ltd.
Högånäs shareholdings: 0

Carl Eklund

Born in 1953
B.Sc. (Eng.)
President, Högånäs Japan KK
Employed since 2004
Previous positions: CEO of Volvo Nippon KK
Högånäs shareholdings: 10 000

Joon Park

Born in 1960
M.Sc. (Met)
President, Högånäs Korea Ltd
Employed since 1988
Previous positions: Gadelius Korea Ltd
Högånäs shareholdings: 0

Anders Andersson

Born in 1951
B. Sc.
HR Director
Employed since 1977
Previous positions: the public sector
Högånäs shareholdings: 0

AUDITORS

Gert Frej

Born 1938
Authorised Public Accountant
Frejs Revisionsbyrå AB
Auditor of the company since 1986

Alf Svensson

Born 1949
Authorised Public Accountant, KPMG
Auditor of the company since 2003

DEPUTY AUDITORS

Berit Ehrenpohl

Born 1952
Authorised Public Accountant
Frejs Revisionsbyrå AB
Auditor of the company since 1995

Eva Melzig Henriksson

Born 1961
Authorised Public Accountant, KPMG
Auditor of the company since 2003

Addresses

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CEO and President Alrik Danielson
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Managing Director: Vincent Rasneur

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Managing Director: Claudinei Reche

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Managing Director: Günter Pache

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Acting President: B. P. Vaidya

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Managing Director: Carl Eklund

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Annual General Meeting

The Annual General Meeting will be held on Wednesday, 25 April 2007 at 3 p.m. at HB-hallen, Höganäs, Sweden.

Notifying participation

Shareholders intending to participate at the Meeting should be recorded on the share register maintained by VPC AB (the Swedish Central Securities Depository & Clearing Organisation) by no later than five days prior to the Meeting.

Shareholders with nominee-registered holdings must ensure that their shares are temporarily re-registered in their own names with VPC by no later than Thursday 19 April 2007.

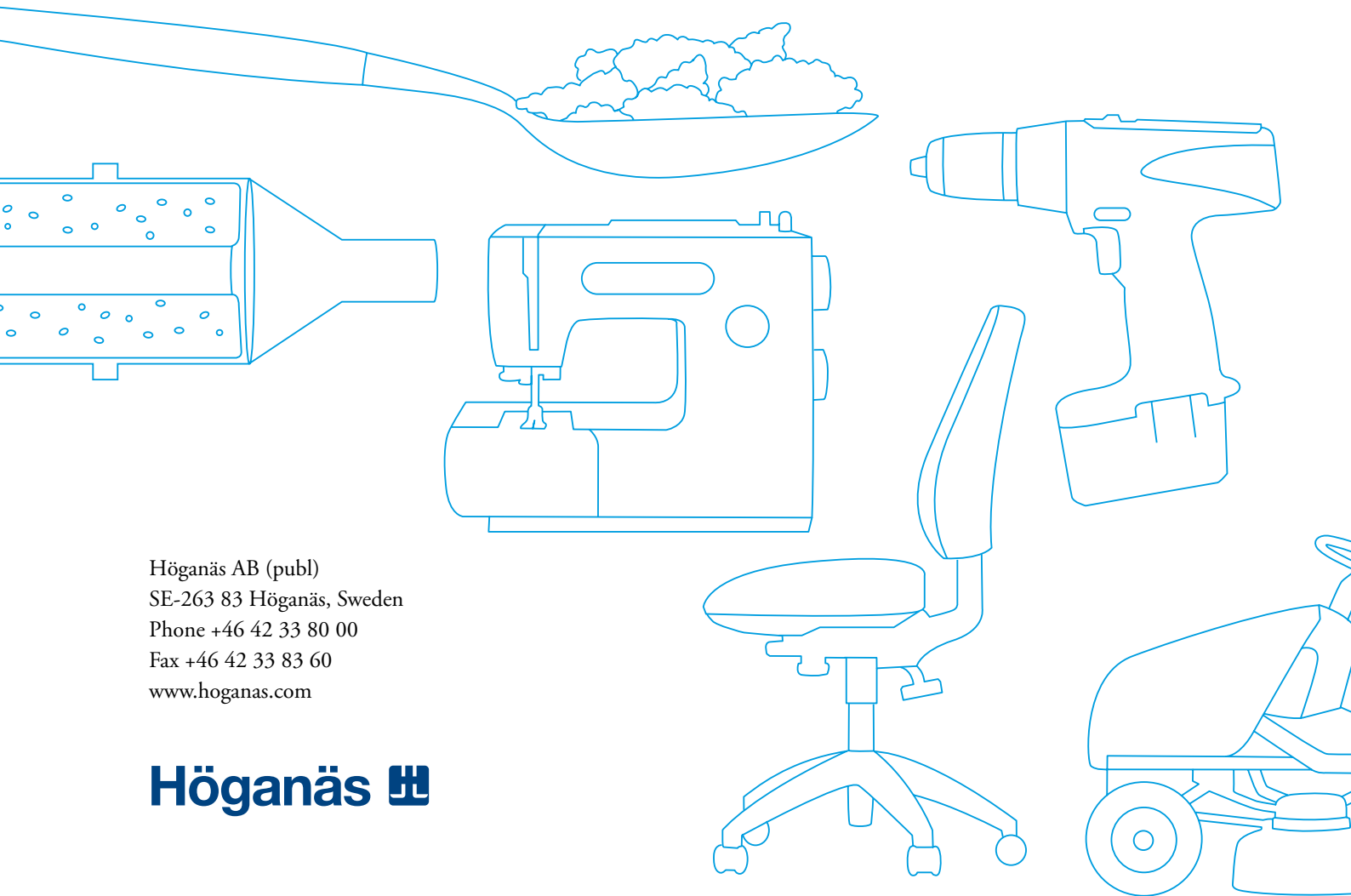
Shareholders intending to participate in the Meeting should also inform the company in writing to Höganäs AB, SE-263 83 Höganäs, Sweden, or by tel +46 (0)42 33 80 59, fax +46 (0)42 33 80 80, on the company's website, www.hoganas.com or by e-mail stamma@hoganas.com by 4 p.m. on Thursday 19 April at the latest. Notifications must state the relevant name, personal or corporate identity number, address, telephone number and registered shareholdings.

Dividends

The Board of Directors proposes declaring a dividend of SEK 6.25 per share for the financial year 2006, with Monday 30 April 2007 as the record date. If the AGM resolves pursuant to the proposal, dividends will be scheduled for disbursement from VPC on Friday 4 May 2007.

Financial Information in 2007

Annual General Meeting	25 April
Interim Report, January–March	18 April
Interim Report, January–June	17 July
Interim Report, January–September	23 October



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Höganäs 