

How Höganäs is controlled

The company has adopted the applicable regulations of the Swedish Corporate Governance Code ('the Code'). Accordingly, the company's Board of Directors has prepared this Corporate Governance Report.

Election Committee

A resolution at the AGM (Annual General Meeting) in 2005 stipulated an Election Committee, comprising representatives from each of the four largest shareholders in terms of the number of votes as of 31 August, and the Chairman of the Board, unless the Chairman is appointed as a shareholder's representative. There are rules on substitution if any of the shareholders declines its rights to appoint a representative on the Election Committee, or if there is a significant change to the ownership structure after the Election Committee is constituted.

The Election Committee's purpose is to consider and submit proposals for appointing a Chairman of the Meeting, the election of the Chairman of the Board and other Board members, Directors' fees, selection of, and remuneration to, auditors and deputy auditors (where applicable) at the AGM, and to otherwise perform those tasks appropriate to the Election Committee pursuant to the Code.

Since October 2005, the Election Committee comprised Ulf G Lindén of Lindéngruppen, Chairman, Carl-Olof By of Industrivärden, Mikael Garton of SEB Fonder and Henrik Didner, Didner & Gerge Fonder. The Election Committee will prepare proposals for the AGM 2006 regarding the Chairman of the Meeting, composition of the Board and Directors' fees. Since the AGM 2005, the Election Committee held two meetings. No remuneration was payable to the Election Committee. To the extent it considers it necessary, the Election Committee possesses the right to appoint external consultants within the framework of its assignment. The Election Committee has utilised this option.

The Board and its activities

The Board of Directors

Since the AGM 2005, the Board comprises Ulf G Lindén (Chairman), Jenny Lindén Urnes, Magnus Lindstam, Bernt Magnusson, Hans Mivér, Per Molin (Deputy Chairman) Agnete Raaschou-Nielsen and Alrik Danielson (Chief Executive Officer). More

detailed presentation of Board members is on page 90 of this Annual Report.

All board members apart from Alrik Danielson and Hans Mivér are independent of the company and the company management. Of the members that are independent pursuant to the above, Bernt Magnusson, Per Molin and Agnete Raaschou-Nielsen are also independent of the company's major shareholders.

Directors' fees

Directors' fees totalling SEK 1 505 000 were payable, of which 305 000 to the Chairman of the Board, SEK 225 000 to the Deputy Chairman, SEK 175 000 to each of the other Board members that are not employed by the group and SEK 100 000 divided between Board members that participate in committee work.

How the Board operates

Each year, the Board of Directors prepares written procedural rules regulating board activities and its internal division of responsibility including its committees, decision-making processes within the Board, Board agenda and the Chairman's tasks. The Board has also issued an instruction for the Chief Executive Officer and for financial reporting to the Board. Additionally, the Board adopted several Policies such as an Ethical Policy, Finance Policy, Communication Policy, Insider Policy and Environmental Policy, which are reviewed in more detail below.

The Board of Directors monitors the Chief Executive Officer's activities through ongoing monitoring of operations in the year, being responsible for the organisation, management and guidelines for ensuring the company's affairs are expediently designed, and that there are satisfactory internal controls. Additionally, the Board is responsible for developing and monitoring the company's strategies through plans and objectives, decisions on operational acquisitions and divestments, major investments appointments and replacements within the group management. The Board of Directors submits the annual financial statement at the AGM.

Chairman

The Chairman of the Board, Ulf G Lindén, organises and manages Board activities to ensure they are conducted pursuant to the Swedish Companies Act, other

laws and ordinances, prevailing regulations for listed companies (including the Code) and the Board's internal control instruments. The Chairman monitors operations in dialogue with the CEO, and is responsible for other Board members receiving the necessary information for performing their tasks. The Chairman is responsible for the Board deepening its knowledge of the company continually, and that the Board's activities are evaluated, and that the Election Committee receives these evaluations.

The chairman also participates in evaluation and development issues regarding the group's senior executives. The Chairman represents the company on ownership issues.

Board activities

Pursuant to the current procedural rules, the Board meets on at least four scheduled occasions, and at one Board meeting following election each year, and additionally, meets when the situation so requires. In 2005, there were five scheduled Board meetings and five additional meetings.

Apart from Board members, the company's Chief Financial Officer participates in Board meetings, as does the Board secretary, Sten-Åke Lindstedt. Other corporate executives participate in Board meetings to present on specific issues, or when otherwise considered appropriate.

In the year, Board activities focused on questions relating to strategy, the group's financial objectives, refinancing the group, impairment tests of assets, and the progress of metal prices, adoption of the Code, Board evaluation and the appointment of a new Chief Executive Officer.

Audit Committee

The Board opted to confirm the previous approach of the entire Board operating as the Audit Committee.

The Board conducted reviews with, and received reports from, the company's external auditors on two occasions in 2005. In addition, the auditors participated in the adoption of the annual financial statement for 2005, where the Chief Executive Officer and other executives

were not present. The auditors reports did not elicit any specific measure from the Board of Directors.

Remuneration Committee

The Board of Directors has appointed a Remuneration Committee internally for the period until the next AGM, comprising Ulf G Lindén, Chairman of the Board and Per Molin, the Deputy Chairman. The Committee's task is to prepare proposals for remuneration and other employment terms for the corporate management. The Board's activities are formalised through a dedicated instruction, adopted by the Board as part of its procedural rules. After the AGM 2005, the Remuneration Committee met on two occasions

Currency Committee

The Board of Directors has appointed an internal currency committee for the period until the end of the next AGM. This committee consists of Alrik Danielson, Agnete Raaschou-Nielsen and Magnus Lindstam. The Chief Financial Officer, Finance and one external financial adviser also attend meetings. The Committee considers and resolves on currency hedging issues within the framework of the Finance Policy. In 2005, the Currency Committee held three meetings, which all members attended. The members of the Committee not employed by the company each received remuneration of SEK 50 000.

Policies

The Board has adopted the following policies for the group's operations and its employees.

- *Ethical Policy*
The group's Ethical Policy has been prepared with the aim of mapping the group's fundamental standpoint on ethical issues, both within the group and towards external customers, suppliers and other interest groups, and the general public.
- *Finance Policy*
The group's finance function works pursuant to instructions adopted by the Board, which create the framework for managing the group's financial issues, such as finance and currency risks.
- *Corporate Communication policy*
The group's Corporate Communication Policy is a document that states the group's guidelines for external corporate communication.
- *Insider Policy*
The group's Insider Policy formalises the company's management of insider trading issues, responsibility for them, and contains instructions for actions by insiders and other members of the organisation on insider-related issues.

Board members' attendance at Board meetings, total 10

<i>Member</i>	<i>Scheduled meeting</i>	<i>Additional meeting</i>
Ulf G Lindén	5	5
Jenny Lindén Urnes	4	4
Magnus Lindstam	5	5
Bernt Magnusson	5	5
Hans Mivér	5	5
Per Molin	5	5
Agnete Raaschou-Nielsen	5	5
Alrik Danielson	5	5

- *Environmental Policy*

The group's Environmental Policy states the framework and standards applicable to the group's environmental activities.

Reporting and control

The Board monitors the quality of financial reporting through instructions for the Chief Executive Officer and formalizing standards of the content of reports on financial circumstances, provided to the Board on an ongoing basis through instructions for financial reporting.

The Board receives and approves financial reporting such as financial statements and annual reports, and has delegated the company management to assure the correctness in press releases with financial content and presentation material for meetings with the media, shareholders and financial institutions.

The Board does not consider that there is any need for a separate internal audit function because the group accounting function has overall responsibility for updating and monitoring internal control issues within the group. Thus in 2005, the whole Board has monitored internal control and risk management systems.

These systems are intended to ensure that operations are conducted pursuant to laws and ordinances, and are effective, and that financial reporting is reliable. The Board has received, and evaluated, routines for accounting and financial reporting, and updated and evaluated external auditors' activities, qualifications and independence.

Corporate management

Pursuant to the Swedish Companies Act, and within the framework the Board has established, the Chief Executive Officer leads operations. In consultation with the Chairman of the Board, the CEO prepares necessary communication and decision-support data for Board meetings, presents the issues and justifies proposed decisions. The CEO leads the group management's activities, taking decisions in consultation with the rest of the management. Apart from Alrik Danielson, this comprises Ulf Holmqvist, Annette Kumlien, Sten-Åke Kvist, Per Lagerlöf and Jan Lundahl, currently a total of six people.

The corporate management conducts regular operational reviews, led by the CEO. The CEO and other members of the group management are presented in more detail on page 91.

Remuneration

No formal resolution regarding the principles for remunerating the company management and other employment terms was made at the AGM 2005. The current

remuneration levels and terms are stated on page 77 of the Annual Report.

Auditors

The auditors are presented on page 91 of the Annual Report. The auditors observe an audit plan, incorporating the views of the Board, and report their observation to the Board partly during their audit process, and finally coincident with adopting the Annual Report for 2005. The auditors also participate in the Annual General Meeting, reviewing and expressing an opinion on audit activities. During the year, the auditors were assigned to consulting, exclusively relating to group audit issues.

The scope of these assignments is stated in Note 6 on page 60 of the Annual Report. The auditors are appointed for the period until the end of the AGM 2007.

The company's adoption of the Code in 2005

Considering its obligation to adopt the Code as soon as possible after 1 July 2005, and with reservations for the following divergences, the company has observed all the applicable rules of the code.

In December 2005, the Swedish corporate governance council reached the decision on a transitional solution for 2005 regarding the rule for reporting internal controls of financial reporting. Pursuant to this transitional solution, the company's board has not made any statement on how well internal controls functioned in the year. Pursuant to the same transitional solution for 2005, this report has not been reviewed by the company's auditors. None of the interim financial statements in 2005 were subject to a review by the auditors, but will be in the financial year 2006.

The composition of the Election Committee does not fully correspond to the stipulations of the Code (item 2.1.2), because the Chairman of the Board was also Chairman of the Election Committee, the reason being that the Chairman represents the largest shareholder in terms of the number of votes, which pursuant to the principles governing the Election Committee adopted at the AGM 2005, should include the Chairman's position. The Board has not appointed a dedicated Audit Committee internally (code item 3.8.2) because the Board previously decided that these questions are considered by the whole Board.

Review

This Corporate Governance Report has not been reviewed by the company's auditors.