

Corporate Governance Report

How Höganäs is governed

Höganäs 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. The Company's auditors have not reviewed this report.

Election Committee

A resolution at the Annual General Meeting (AGM) in 2007 stipulated the appointment of an Election Committee, comprising representatives from each of the four largest shareholders as per August 31, 2007 in terms of the number of votes and the Chairman of the Board. There are rules on substitution if any member leaves the Election Committee before its work is complete.

The purpose of the Election Committee is to consider and submit proposals for appointing a Chairman of the AGM, electing 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 performing those tasks assigned to the Election Committee pursuant to the Code.

Since October 2007 the Election Committee is comprised of Chairman of the Board Per Molin, Ulf G Lindén (Lindéngruppen), Carl-Olof By (Industrivärden), Ramsay Brufer (Alecta) and Henrik Didner (Didner & Gerge Fonder). The Election Committee will prepare proposals for the AGM 2008 regarding the Chairman of the AGM, Chairman of the Board, composition of the Board and Directors' and auditors' fees. Since the AGM 2007, the Election Committee has held four meetings. No remuneration was payable to the Election Committee. To the extent it considers necessary, the Election Committee possesses the right to appoint external consultants within the framework of its assignment at the Company's expense. The Election Committee has not utilised that option.

The Board and its activities

The Board of Directors

Since the AGM 2007, the Board comprises AGM-elected members Per Molin (Chairman), Jenny Lindén Urnes, Urban Jansson, Bengt Kjell, Oystein Krogen, Bernt Magnusson, Hans-Olov Olsson, Agnete Raaschou-Nielsen and Alrik Danielson (Chief Executive Officer). Additionally, the unions have appointed two regular Board members, and two deputies for them. A more detailed presentation of Board members is presented on page 92 of this Annual Report and on the Company's website. All AGM elected members are independent of the Company and its management team, apart from Alrik Danielson, Per Molin and Bernt Magnusson. Alrik Danielson is Höganäs' Chief Executive Officer (CEO); Per Molin and Bernt Magnusson have been Board members since 1994. Of the independent members, Hans-Olov Olsson, Agnete Raaschou-Nielsen and Urban Jansson are also independent of the Company's major shareholders.

Directors' fees

Directors' fees totalling SEK 2 100 000 were payable, of which 400 000 to the Chairman of the Board, SEK 200 000 to each of the other AGM-elected Board members that are not employed by the group and SEK 300 000 as remuneration for committee work, of which SEK 50 000 to each of the two external Board members on the company's Treasury Committee, SEK 100 000 to the Chairman of the company's Audit Committee and SEK 50 000 to each of the two external Board members on the company's Audit Committee.

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, agenda and the Chairman's tasks. The Board has also issued an instruction for the CEO and one for financial reporting to the Board. Additionally, the Board adopted several Policies for the Group's operations.

The Board of Directors monitors the CEO's activities through ongoing monitoring of operations in the year, being responsible for the organisation, management and guidelines for ensuring that 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 presents the annual financial statement at the AGM.

Board members' attendance at Board meetings, eight meetings in total

<i>Member</i>	<i>Scheduled meeting</i>	<i>Additional meeting</i>
Per Molin	5	3
Jenny Lindén Urnes	5	2
Bengt Kjell	4	3
Magnus Lindstam ¹	0	0
Bernt Magnusson	4	3
Hans-Olov Olsson	2	3
Oystein Krogen	5	3
Agnete Raaschou-Nielsen	5	3
Alrik Danielson	5	3
Urban Jansson ²	2	2

¹ Resigned in January, 2007

² Elected at AGM 2007

Chairman

The Chairman of the Board, Per Molin, 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, 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, at one Board meeting following the AGM each year, and additionally meets when a situation requires it to. In 2007, there were five scheduled Board meetings and three additional meetings. Apart from Board members, the Company's Chief Financial Officer participates in Board meetings, as does the Board secretary, Attorney-at-Law Ragnar Lindqvist. Other corporate executives participate in Board meetings to present information about specific issues, or when otherwise considered appropriate. In the year, Board activities focused on questions relating to strategy, structural issues, raw material price and currency trends.

Audit Committee

After the AGM 2007, the Board of Directors appointed an internal Audit Committee for the period until the end of the following AGM. The Committee comprises Chairman of the Board Per Molin, Bengt Kjell and Karl-Henry Boo. The Chief Financial Officer, Group Accounting Manager and the external auditor participate at the meetings. The purpose of the Committee is to consider issues relating to tendering for auditing and audit fees, monitoring auditors' activities and the Company's internal control systems, monitoring the current risk situation, monitoring external audits and the Company's financial information, as well as

other issues the Board appoints the Committee to consider. The Committee's activities are formalised by a dedicated instruction adopted by the Board as part of its procedural rules. In 2007, the Committee met on three occasions when all of its members were present.

The Board of Directors held reviews with, and received reports from, the Company's external auditors, on two occasions in 2007, *inter alia*, in connection with adopting the annual financial statement for 2007. At one occasion the Board of Directors held reviews with the auditors without the CEO or other members of the corporate management being in attendance.

Remuneration Committee

The Board of Directors has appointed an internal Remuneration Committee for the period until the end of the following AGM, comprising Chairman of the Board Per Molin, Jenny Lindén Urnes and Bengt Kjell. The Committee's task is to consider and prepare remuneration issues relating to the corporate management and will on assignment from the Board present proposals regarding the principles governing remuneration and other employment terms for the corporate management for resolution by the AGM. The Committee's activities are formalised through a dedicated instruction adopted by the Board as part of its procedural rules. In 2007, the Remuneration Committee met on six occasions when all of its members were present.

Treasury Committee

The Board of Directors has appointed an internal Treasury Committee for the period until the end of the following AGM. The Committee comprises Alrik Danielson, Agnete Raaschou-Nielsen and Bernt Magnusson. The Chief Financial Officer, Treasury Manager and one external financial adviser also attend meetings. The Committee considers and resolves on currency hedging issues within the framework of the Company's Finance Policy. In 2007, the Treasury Committee held three meetings, which were attended by all its members.

Policies

The Board has adopted, amongst others, 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, as well as 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, e.g. 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.

- *Environmental Policy*

The Group's Environmental Policy provides guidelines and states the framework and standards applicable to the Group's environmental activities.

Corporate management

Pursuant to the Swedish Companies Act, and within the framework that the Board has established, the CEO leads operations. In consultation with the Chairman of the Board, the CEO prepares necessary communication and decision-supporting 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 Anders Andersson, Carl Eklund, Per Engdahl, Ulf Holmqvist, Avinash Gore, Per Lagerlöf, Sven Lindskog, Claudinei Reche, Hans Söderhjelm and, since January 2, 2008, Srinivasa Srinivasan; currently a total of 11 people. The corporate management conducts regular operational reviews, led by the CEO. The CEO and members of the Group management team are presented in more detail on page 94.

Remuneration

A formal resolution regarding the principles for remunerating the corporate management and other employment terms was taken at the AGM 2007. The current remuneration terms, including outstanding incentive schemes, are stated on page 84.

Auditors

The auditors are presented on page 95. The auditors observe an audit plan, incorporating the views of the Board, and report their observations to the Board during their audit process, and in connection with adopting the Annual Report. The auditors also participate in the AGM, describing and expressing an opinion on the audit activities. During the year, the auditors were assigned to consult on Group audit issues. The scope of these assignments is stated in Note 6 on page 65. The auditors are appointed for the period until the end of the AGM 2011.

The structure of internal controls of financial reporting

The Company has not established an internal audit function. The Company does not consider that it has the critical mass to justify the cost of an internal audit function. The accounting function of the Company has responsibility for updating and monitoring internal control issues within the Group and reporting back to the Audit Committee.

The statement regarding internal controls has been prepared pursuant to the Code (items 3.7.2 and 3.7.3) and the Swedish Corporate Governance Board's supplementary instructions from September 2006 (Ref. 1-2006), and is thus confined to how internal controls over financial reporting are organised.

The Confederation of Swedish Enterprise's/FAR's (the Institute for the Accounting Profession in Sweden) guidance on Board reports on internal controls over financial reporting, identifies COSO particularly as the framework with the broadest proliferation and international acceptance, and which enjoys a unique position in terms of the definition of good internal controls. Accordingly, in December 2005, the Company resolved to introduce the COSO framework for internal controls over financial reporting. A review of the current structure of internal controls over financial reporting follows.

Control environment

Effective Board activities are the foundation for good internal controls. The Board has formulated unequivocal working processes and procedural rules for its activities and the Board's committees. Resolving on the framework for internal controls to be applied within the Group, and to formulate and approve a number of fundamental policies, guidelines and frameworks related to financial reporting is an important part of Board activities. These resolutions include a Code of Conduct and a Finance Policy.

The Board evaluates the performance and results of operating activities continuously through a reporting package, including operational and profit figures, analyzing key indicators and other significant operational and financial information.

Risk assessment

In the beginning of 2007, the Group's risk analysis was confirmed. The risk assessment evaluated the risk of significant misstatements in financial reporting. A number of income statement and balance sheet items, subject to the risk of material misstatement, were identified in conjunction with the risk analysis. Those risks mainly relate to the valuation of inventories, the valuation of fixed assets, revenue recognition, the valuation of accounts receivable, accrued liabilities and provisions, taxes and financial instruments.

The risk assessment is based on a number of factors including the impact on the financial statements, account characteristics, business process characteristics, external factors and the risk of fraud. As a result of the risk assessment a number of significant accounts were identified for the purpose of determining relevant control activities.

Control activities

Control structures are designed to manage the risks that the Board consider significant with regards to internal control over financial reporting. Those control structures comprise firstly an organisation with clearly defined roles enabling an effective division of responsibility that is suitable from an internal control perspective, and secondly specific control activities intended to prevent or detect the risks of errors in the financial statements on a timely basis. Based on the yearly risk assessment the design of key controls for each entity was evaluated. As a consequence of the design assessment certain controls were redesigned in order to mitigate the financial reporting risks.

Information and communication

The control documents related to financial reporting mainly comprise its policies, guidelines and manuals, which are continuously updated and communicated through relevant channels. A clear policy stating the guidelines for this communication is applied for communicating with external parties. The purpose of this policy is to ensure that all communication liabilities are fulfilled correctly and comprehensively.

Monitoring

As stated above, monitoring that internal controls are designed properly and operate effectively is achieved through a combination of self-assessment, independent testing and verification by external parties. Starting from the final quarter of 2007 the Group adopted a structured approach to evaluate the operating effectiveness of key controls. The company has mainly performed independent testing in combination with external consultants in order to assure a qualitative and efficient design of controls. The result of the evaluation is reported to Group management and the Audit Committee on a continual basis.

Also as a consequence of the reviews conducted by the external auditors the Audit Committee conducts an annual process to ensure that appropriate measures are taken in case of identified improvement needs. After Audit Committee consideration, the Board receives and evaluates the routines for accounting and financial reporting. Likewise it monitors and evaluates the work, qualifications and independence of the external auditor.

The Company's application of the Code

The Code is built on the "follow or explain" principle. This means that companies applying the Code may deviate from individual rules but must provide explanations and reasons for each reported deviation. Höganäs has not deviated from the rules of the Code.