

Höganäs AB
Annual Report
2003

The world's largest
iron powder producer

The world's largest
metal powder producer



Höganäs AB (publ)
SE-263 83 Höganäs
Sweden





CONTENTS

4	Höganäs in brief
6	Financial overview
8	The share
10	CEO's statement
12	Business concept and objectives
<i>Directors' Report</i>	
13	Group overview, 2003
14	Iron Powder
21	High-alloy Metal Powder
26	R&D
28	Procurement
30	Quality
32	The environment
34	Human capital
36	Risk management
38	Corporate governance
39	Appropriation of profits
40	Income Statement
42	Balance Sheet
45	Statement of Changes in shareholders' Equity
47	Cash Flow Statement
49	Notes
60	Audit Report
62	Five-year overview and quarterly data
64	Board, corporate management and auditors
66	Addresses
67	AGM and financial information
<i>Some applications</i>	
20	A breakthrough for SMC in buses
25	Exhaust filters for diesel engines

Höganäs in brief



Höganäs is the world's largest producer of iron and non-ferrous metal powders with a global market share of over 30 per cent. The corporation's overall objective is continuous growth, through increased market shares and by developing new applications for iron and metal powder.

Nearly 99 per cent of Höganäs' products are sold on international markets; the group enjoys undisputed market leadership in Europe and many Asian countries. In recent years, geographical expansion has been focused on the American market.

Höganäs, founded in 1797, now has some 1 600 employees in 13 countries. Production is located in Sweden, Belgium, the UK, Brazil, India, Japan, the US and China.

Höganäs' business is divided into two business areas, Iron Powder and High-alloy Metal Powder. The biggest product group is iron powder, pressed and sintered into components, mainly in the automotive industry. The key competitive benefits of this manufacturing method are a lower total cost for end-users than other technologies. The machine and electronics industries are other sectors whose end-products embed significant and increasing amounts of iron and metal powder.

IRON POWDER

- ▶ The business area develops two types of iron powder:
 - ▶ Press powder for component manufacture, mainly used in the automotive industry;
 - ▶ Other iron powder with applications in friction (brake coatings), welding, SMCs (soft magnetic composites) for electrical equipment, ignition coils and electric motors, carrier cores (copier and printer toners) and chemical and metallurgical applications (food supplements and chemical purification).

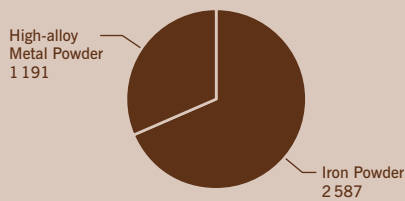
HIGH-ALLOY METAL POWDER

- ▶ The business area's metal powder is principally used as press powder for the manufacture of stainless steel components, as surface coating powders for filters in the chemical and textile industries, and as raw materials for welding electrodes.

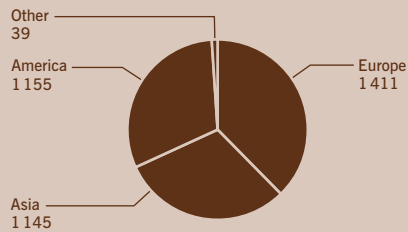
Höganäs' competitive advantages are:

- ▶ The largest product portfolio in its sector;
- ▶ Developmental leadership in production processes and materials, and in the development of new applications. Höganäs has approximately 120 staff employed on R&D, 15 of whom are technology Ph.D.s.;
- ▶ Consistent high quality;
- ▶ The only metal powder producer able to supply identical powder grades from different production facilities around the world;
- ▶ Continuous technological support of supplied products with trouble-shooting and rectification extending into customers' internal processes.

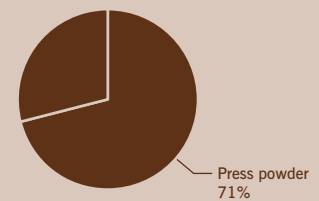
Net sales by business area, MSEK



Net sales by geographical market, MSEK



Press powder as a share of consolidated net sales



Production facilities – location and powder orientation

Facility	Powder orientation
Höganäs, Sweden	Non-alloy and alloy iron powder, mixes
Halmstad, Sweden	Atomised raw powder
Ath, Belgium	Iron, nickel and cobalt base alloys
Tonbridge, UK	Iron base alloys
Stony Creek, PA, USA	Non-alloy iron powder, mixes, iron, nickel and cobalt-based raw materials
Niagara Falls, NY, USA	Non-alloy iron powder
Raleigh-Durham, NC, USA	Copper
Johnstown, PA, USA	Iron, nickel and copper base alloys
Ahmednagar, India	Non-alloy iron powder, mixes
Shanghai, China	Non-alloy iron powder, mixes
Saitama, Japan	Mixes
Mogi das Cruzes, Brazil	Atomised raw powder
Jacarei, Brazil	Non-alloy iron powder, mixes

HISTORY

- ▶ 1797 Höganäs Stenkolsverk incorporated
- 1825 A brick-works for the production of fire-proof and building bricks founded
- 1835 Manufacture of salt-glazed stoneware begins
- 1910 Iron sponge production facility constructed
- 1946 Iron powder production facility constructed
- 1950 Production of iron powder begins in Riverton, New Jersey, USA
- 1969 Acquisition of the first facility for the production of atomised iron powder in Sweden
- 1985 Coldstream SA of Belgium acquired – a manufacturer of high-alloy metal powder
- 1988 Iron powder production begins in India
- 1992 New atomisation plant brought into use in Halmstad, Sweden
- 1995 Iron powder production begins in China
- 1999 Divestment of 20 per cent shareholding in Hoeganaes Corporation, USA
- 1999 Belgo Brasileira Ltd. of Brazil acquired – an iron powder producer
- 2000 First Miss Steel and Pyron acquired in the US; Powdrex of the UK acquired, a producer of high-speed steel powder
- 2001 New production facility for atomised iron powder, Stony Creek, opened in the US
- 2003 New production facility opened in Brazil; SCM acquired in the US – a producer of high-alloy metal powder



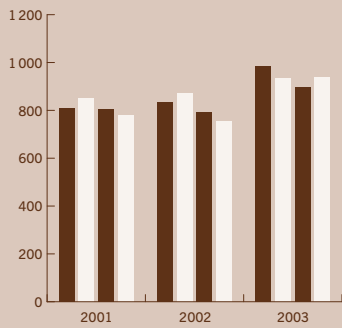
Over the last three years, Höganäs has significantly extended its global production capacity, while market progress has been weak. Höganäs is now ready to increase its production when demand gathers pace, and this will make a positive profit impact.

The largest expansion has occurred in the US, where market success necessitates local production. At Stony Creek, the world's most modern iron powder facility, 50 per cent capacity utilisation is planned for 2004, and after a few years of losses, break-even at the operating income level is expected, followed by progressive improvement.

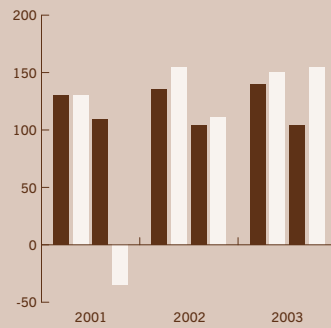
The acquisition of SCM Metal Products, Inc. in the year implies that Höganäs now also has local production of high-alloy metal powder on the key North American market. SCM made a positive profit contribution as early as its first year; further co-ordination measures will increase the benefits of this acquisition.

- NET SALES** ▶ Höganäs' net sales increased from MSEK 3 245 in 2001 to MSEK 3 750 in 2003, equivalent to annual growth of some 8 per cent. Businesses with net sales of MSEK 650 were acquired in this period. For this period overall, volumes grew by 17 per cent.
- OPERATING INCOME AND OPERATING MARGIN** ▶ In 2001–2003, operating income excluding items affecting comparability grew from MSEK 451 to MSEK 549. Largely, these gains can be explained by the acquisition of SCM of the US. The adverse effects of the Swedish krona's appreciation have been more than offset by positive results from currency hedging. Operating margins grew from 13.9 per cent in 2001 to 14.6 per cent in 2003, despite the fact that over the last two years, the cost of materials increased significantly. Since 2003, the annual depreciation and amortisation cost of Stony Creek amounted to approximately MSEK 40, equivalent of 15 per cent of Höganäs' total depreciation and amortisation in 2003. Höganäs harbours sizeable profit growth potential inherent in its unutilised global production capacity, which will be available for more efficient utilisation, as demand increases.
- CAPITAL TURNOVER, CASH FLOW AND FINANCIAL POSITION** ▶ Over the last two years, Höganäs' rate of capital turnover has increased from 1.07 to 1.08, while returns on capital employed have increased from 11.0 per cent to 15.8 per cent, despite acquisitions completed and a negative currency and price mix. Operating net cash flows were robust (partly due to a stronger Swedish krona) resulting in consolidated net indebtedness at year-end of MSEK 1 651, against MSEK 1 357 at the previous year-end, despite the group making acquisitions and investments totalling MSEK 869 in 2003. At year-end 2003, the group's equity/assets ratio was 42 per cent.

Quarterly net sales, MSEK



Quarterly operating income, MSEK

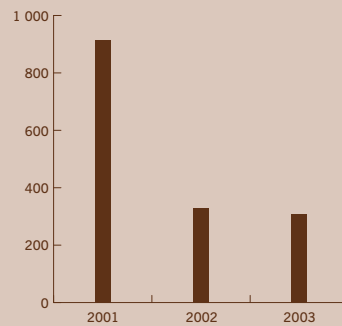


Exchange rate effect on quarterly net sales

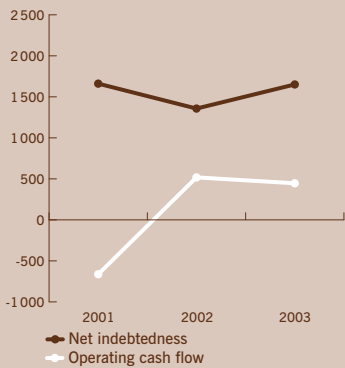


Quarterly change year on year.

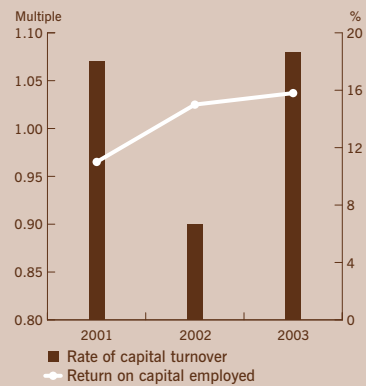
Investments, MSEK



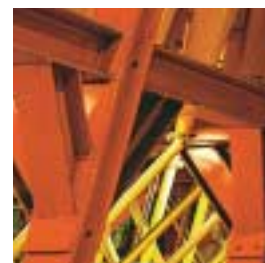
Operating cash flow and net indebtedness, MSEK



Rate of capital turnover and return on capital employed



The Höganäs share



Höganäs made its first appearance on the Stockholm Stock Exchange in 1903, then under the name Höganäs-Billesholms AB. In 1987, Lindéngruppen AB acquired all the shares of Höganäs AB, resulting in its de-listing. The Höganäs share was re-floated on the Stockholm Stock Exchange in April 1994.

Share capital amounts to SEK 175 494 660 divided between 981 000 class A shares and 34 117 932 class B shares with a nominal value of SEK 5 per share. All shares confer equal rights to participation in the company's assets and profits. Each class A share confers 10 votes, while each class B share confers one vote. Only the class B share is quoted on the Stockholm Stock Exchange. A trading lot in Höganäs AB amounts to 100 shares. The adjacent tables illustrate Höganäs' ownership structure and division between share classes.

MARKET CAPITALISATION AND SHARE PRICE PERFORMANCE

- ▶ As of 30 December 2003, Höganäs' market capitalisation was MSEK 5 254 (5 629). In the period, the share's high was SEK 176 on 9 September, and its low was SEK 130 on 14 March. The share declined from SEK 165 to 153 in 2003, a 7 per cent downturn, while the SX All-share Index rose by 30 per cent in the same period.

TURNOVER

- ▶ In the financial year 2003, 16.3 million Höganäs shares were turned over for an aggregate value of MSEK 2 507, a 6 per cent reduction year on year. The rate of turnover was 79 per cent, against the stock market average of 113 per cent.

DIVIDEND POLICY

- ▶ The Board of Directors' intention is to pursue a dividend policy implying that dividend levels are modified to Höganäs' profit levels and future outlook, the corporation's cash flow, investment need and other relevant factors. Consistent dividend growth is pursued; annual dividends are to be 30–50 per cent of net income.

DIVIDENDS

- ▶ For the financial year 2003, the Board of Directors is proposing that the AGM (Annual General Meeting) approves dividends of SEK 5.00 (5.00) per share. This dividend would correspond to 48 per cent of net income.

SHARE BUY-BACKS

- ▶ Höganäs did not buy back any shares in 2003; the buy-back mandate expired at the AGM. At year-end, Höganäs' holdings of bought-back shares amounted to 881 900, or 2.5 per cent of the total number of shares.

OPTION PLANS

- ▶ A call option plan encompassing 600 000 options was initiated in 2000, and offered to the group's senior executives. This option plan has a term of five years, with a premium of SEK 20.60 and an exercise price of SEK 185. The options could be redeemed for shares from June 2001; no options had been redeemed at year-end.

Höganäs AB's 10 largest shareholders

Shareholder	No. of shares	% of share capital*	% of votes*
Lindéngruppen	7 650 000	22.4	38.3
Third AP Fund	2 397 099	7.0	5.6
Marathon	2 249 720	6.6	5.2
SEB Funds	1 883 560	5.5	4.4
Nordea	1 734 715	5.1	4.0
Didner & Gerge	1 507 600	4.4	3.5
AFA	1 494 088	4.4	3.5
Lannebo Funds	643 700	1.9	1.5
Kammarkollegiet	612 000	1.8	1.4
Skandia Liv	408 024	1.2	0.9

* Höganäs' bought-back 881 900 shares are not included in percentages of capital or votes.

Shareholdings by size as of 30 December 2003

Holdings	No. of shareholders	No. of shares	%
1-500	8 827	1 518 330	4.3
501-1 000	1 053	860 331	2.5
1 001-5 000	668	1 531 760	4.4
5 001-100 000	202	4 367 204	12.4
100 001-	38	26 821 307	76.4
Total	10 788	35 098 932	100.0

No. of shares

Share class	No. of shares	No. of votes	% of share capital	% of votes
A	9 810 000	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

Share capital history

	1994	Bonus issue 1998	Cancellation 2001
Increase in number		12 750 000	-3 151 068
Total number	25 500 000	38 250 000	35 098 932
Increase in capital		63 750 000	-15 755 340
Total capital	127 500 000	191 250 000	175 494 660

Financial analysts monitoring the Höganäs share

Institution	Analyst
ABG Sundal Collier	Anders Jegers
Alfred Berg	John Hernander
Carnegie	Anders Idborg
CAI Cheuvreux	Patrik Sjöblom
Enskilda Securities	Anders Trapp
Fischer Partners	Henrik Moberg
Hagströmer & Qviberg	Johan Dahl
Handelsbanken Markets	Carl Holmquist
Human Securities	Mattias Eriksson
Kaupthing Bank	Hampus Engellau
Swedbank	Mats Liss
Öhman	Anders Roslund

Key indicators

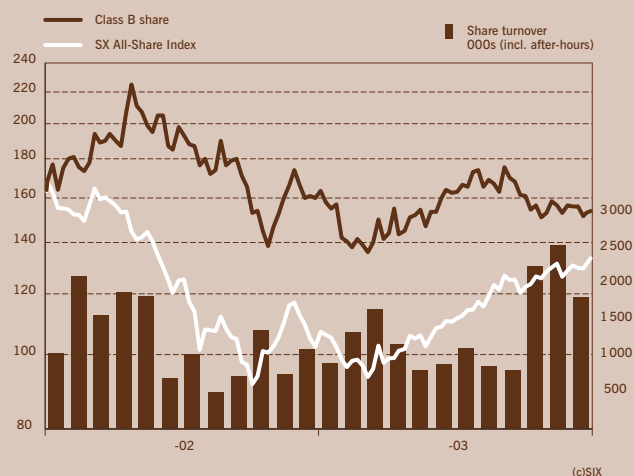
Adjusted for share issues	2003	2002	2001	2000	1999
Earnings per share, SEK*	10.40	9.70	6.00	14.20	11.00
Cash flow after investment per share, SEK*	-3.40	15.80	-21.00	1.80	7.80
Shareholders' equity per share, SEK*	57.70	53.40	50.50	51.10	48.30
Dividends per share, SEK**	5.00**	5.00	4.50	4.50	4.00
Year-end share price, SEK	165.00	165.00	166.00	138.50	185.00
Dividend yield, %***	3.0	3.0	2.7	3.3	2.2

* Pursuant to definition on page 63

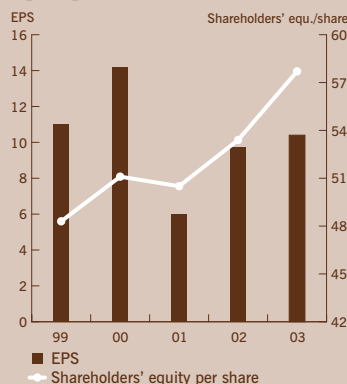
** Pursuant to Board proposal

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

Höganäs' share price performance and turnover



Earnings and shareholders' equity per share, SEK





A protracted recession, sharp materials price increases and heavy adverse currency movements in 2003 meant a year of daunting challenges. Despite these difficulties, Höganäs succeeded in increasing its market shares and improving profits, largely because of the positive outcome of currency hedging and profit contributions from the acquired SCM Metal Products. Höganäs' sales are evenly distributed worldwide, with about one-third of net sales attributable to each of America, Asia and Europe. Extensive capacity expansion and new product initiatives in recent years put Höganäs in a secure position ahead of its future.

For Höganäs' part, 2003 was a very exciting year. Despite a relatively downbeat climate in the surrounding world, Höganäs had a number of successes that consolidate our strategic position ahead of the future.

We succeeded in increasing sales in North America, implying growing market shares on an otherwise stagnant market. The acquisition of special powder producer SCM Metal Products augmented our product range and brought us proprietary production capacity of high-alloy metal powders on the strategic American market.

In Japan, sales volumes were largely unchanged, while the rest of Asia featured sustained brisk growth, particularly China and India. Höganäs retained its market leadership in Europe, although volumes were restrained by a weak business cycle. In total, sales of iron powder grew by 7 per cent, with press powder representing a 9 per cent increase. Meanwhile, global automotive production was largely unchanged.

We are also pleased to be able to report quality enhancements across all our facilities worldwide, which simplifies our customers' production processes.

Apart from a sustained weak business cycle, Höganäs' business climate also featured sharp raw materials price increases in 2003. To offset these drastic increases, Höganäs will be charging price supplements on certain alloying materials and raw materials in 2004. The prices of key raw materials such as nickel, molybdenum and scrap rose by between 70 and 200 per cent in the year, while marked exchange rate fluctuations in some of Höganäs' key trading currencies, particularly the USD and JPY, also impeded operations, although in 2003, they were compensated by the favourable outcome of previous hedges. In 2004, some 80 per cent of net flows are hedged, which subsequently decreases linearly to zero by year-end 2007.

Our R&D initiatives sustained their high standards of recent years. Our press powder segment is a high priority, with efforts here on increasing the density of press powder components, thereby enhancing their mechanical characteristics. Some of this development is focused on partial or surface compression, considered to enjoy major potential for the manufacture of transmission gearwheels. The development of SMC's (soft magnetic composites) is another high priority. SMC's enable the size of electric motors to be reduced and their efficiency increased. Electric motor manufacturers in Japan and the US are particularly interested in SMC technology, and Höganäs is running several development projects alongside component and electric motor manufacturers.

Investments in machinery and equipment over the past year were some MSEK 300, with the extension of the Astaloy facility at Höganäs consuming the biggest portion. Accordingly, the capacity of Astaloy powder has been increased many times over. These powders replace costly alloy substances like nickel with chrome, which is far cheaper. During the year, a new facility for powder annealing and a mixing station came on stream in Brazil.



**EXCEPTIONAL
PROFESSIONALS**

- ▶ Our know-how is directly reflected in Höganäs' renowned high quality. We're delighted to be able to refer to our most recent Customer Satisfaction Survey, a regular event where yet again last year, Höganäs outperformed its competitors in almost every respect. Obviously, this kind of success would never be possible unless Höganäs was a workplace for unusually skilled and driven professionals. At Höganäs, we have a tradition of nurturing our staff. We will also concentrate on continued skills enhancement in Sweden and other countries, with our consistent objective being to remain an attractive workplace for the very best skills in our fields.

**2004
– INTENSIFIED
CONSOLIDATION**

- ▶ The coming years will feature integration and consolidation of our businesses, after the robust expansion of recent years. We will be focusing on measures to enhance quality and increase capacity. On the expansive Chinese market, we are planning the expansion and extension of our production facility. In the next few years, Höganäs expects investments to be comparable to depreciation and amortisation.

Our announcement in February this year of our intention to divest SCM's copper powder business, which increasingly, lies outside Höganäs' core business, is another example of our consolidation.

Continued cost-cutting in the automotive industry, a process that accentuates interest in press powder components, will be a key driver in future. In most cases, components produced using press powder are cheaper than competing technologies. Looking slightly further ahead, we also expect accelerating growth within SMC's, as a number of on-going development projects start to bear fruit.

Höganäs' R&D initiatives will continue during the current year; our ambition is for Höganäs to always be first to launch new products, and the fact that we often pursue our development work in close collaboration with customers and end-users adds extra significance to our achievements and progressively advances our position.

OUTLOOK

- ▶ The global economy appears to be shaping up for a faint rally in 2004, a modest trend-break probably driven by an upswing in the US. We anticipate that brisk growth in China and India will sustain, with persistent weakness in Japan. We also anticipate a modest cyclical recovery in Europe.

We expect automotive production volumes to increase somewhat, and in the press powder segment, sustained healthy organic growth is likely. We also anticipate our North American market shares rising, factors that overall, are expected to result in volume gains. The potential sustained increase of raw materials prices may exert an adverse profit effect. In 2004, we expect income before tax to be consistent with, or better than, 2003.

Claes Lindqvist
President and CEO

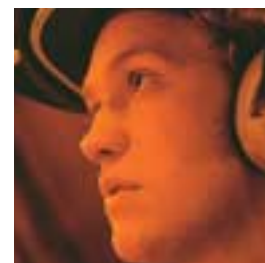
Business concept and objectives



- VISION** ▶ Höganäs will be the market leader in iron and non-ferrous metal powder by providing its customers with the best products and the best service.
- BUSINESS CONCEPT** ▶ Höganäs' business concept is to develop, manufacture and market iron and metal powder.
- QUALITATIVE OBJECTIVES**
- ▶ To be the market leader in its product areas
 - ▶ Recognised high-quality in production and service
 - ▶ A research and development leader
 - ▶ Lowest total cost per manufactured end-product
 - ▶ Environmental production
 - ▶ An attractive workplace
- QUANTITATIVE OBJECTIVES**
- ▶ Market share of 40 per cent on the global iron powder market, and those high-alloy metal powder market niches where the company is active
 - ▶ Minimum annual growth rate of 10 per cent over a business cycle
 - ▶ Operating margin exceeding 15 per cent excluding the effect of currency hedges/options
 - ▶ Return on capital employed exceeding 20 per cent
 - ▶ Net indebtedness no higher than 150 per cent of shareholders' equity
- GROWTH TO BE ACHIEVED BY**
- ▶ New applications resulting from R&D collaborations with customers
 - ▶ Increased market shares on selected markets through product leadership and customer service
 - ▶ Acquisitions to advance positioning
- PROFITABILITY REALISED THROUGH**
- ▶ Outgrowing competitors
 - ▶ Cost optimisation
 - ▶ High value-added
 - ▶ Geographical diversification
 - ▶ Internal and external benchmarking
 - ▶ Exploiting synergies within production, marketing and distribution
 - ▶ Control of the entire value chain
- COMPETITIVENESS CONSOLIDATED THROUGH**
- ▶ Product leadership through a continuous R&D focus
 - ▶ Close collaboration with customers
 - ▶ Constant improvements
 - ▶ Global production and local presence

Directors' Report – group overview 2003

The following pages of the Annual Report review financial results, business conditions and expected future progress of each business area. Comments on the financial performance of the group are associated with the Income Statement, Balance Sheet and Cash Flow Statement.



The Board of Directors and Chief Executive Officer of Höganäs AB (publ), corporate identity number 556005-0121, and registered office in Höganäs, Sweden, hereby submit the Annual Report and consolidated financial statements for the financial year 2003. The group pursues operations through two business areas: Iron Powder and High-alloy Metal Powder.

OWNERSHIP

- ▶ Höganäs' main owner is Lindéngruppen AB with 22.4 per cent of the share capital and 38.3 per cent of the vote. Lindéngruppen is represented on the Board by Ulf G Lindén and Magnus Lindstam.

FINANCIAL OVERVIEW 2003

- ▶ Consolidated net sales excluding acquisitions reduced by 5 per cent, although volumes across all powder grew by 7 per cent. Appreciation of the Swedish krona, particularly against the USD and JPY, but also to some extent against the EUR, exerted a MSEK 320 – plus negative influence on net turnover (10 per cent). Including the acquisition of SCM, net turnover grew by 15 per cent, which also resulted in operating income growing by MSEK 44. Operating margin for the year was 14.6 per cent (15.5). Lower interest rates contributed to improved net interest income, despite borrowings being MSEK 274 higher than at the previous year-end. Earnings per share grew by 7 per cent to SEK 10.40 (9.70). Cash flow from ongoing activities for the year remained robust, amounting to MSEK 752 (832).

SIGNIFICANT EVENTS IN THE YEAR

- ▶ Early in the year, SCM Metal Products, Inc. was acquired from OMG, a transaction resulting in Höganäs establishing proprietary high-alloy metal powder production on the North American market. After the acquisition, the High-alloy Metal Powder business area represents over 30 per cent of consolidated net sales. More information is in [Note 2](#) Segment reporting. Höganäs Brasil's new production facility at Jacarei was opened in July. Initially, this unit will process the annealing and mixing of all locally produced iron powder. The extension of Astaloy powder at Höganäs was the biggest investment project of the year, totalling some MSEK 150. After the scheduled production start, in the first quarter 2004, the annual capacity of these powders will amount to 30 000 tons.

EVENTS AFTER THE END OF THE YEAR

- ▶ Consistent with its strategy of concentrating resources and efforts on established core businesses, Höganäs has resolved to initiate discussions with interested parties regarding a divestiture of SCM's copper product manufacturing facility.

HOLDINGS OF OWN SHARES

- ▶ At year-end, Höganäs held 881 900 of its own shares, or 2.5 per cent of the total number of shares.

NEW ACCOUNTING PRINCIPLES

- ▶ Höganäs is currently attempting to identify the potential effects of the introduction of IFRS (International Financial Reporting Standards); the most significant accounting changes for Höganäs are IAS 19 'Employee Benefits' and IAS 39 'Financial Instruments, Recognition and Measurement'. IAS 19 will be implemented from year-end 2004 through the introduction of RR 29. The effect of the implementation of IAS 19 and RR 29 is presented in [Note 1](#).

Iron Powder



Iron powder is primarily used in the manufacture of mechanical components, with the majority used in the automotive industry. Pressing and sintering iron powder is often a cheaper and more energy-efficient process than traditional methods such as forging and casting. Moreover, the quality of these components is more consistent, and necessitates less post-processing. Iron powders can also be used in an array of segment such as food additives, welding and in electric motors.

Höganäs is the world's biggest manufacturer of iron powder. The business area consists of two product groups:

- ▶ Press powder for component manufacture, primarily used in the automotive industry;
- ▶ Other iron powders with applications in friction (brake coatings), welding, SMC's (soft magnetic composites for electrical components), carrier cores (printers and copiers) and chemical and metallurgical applications (including food supplements and chemical purification).

The business area's overall objective is to develop powder solutions for new applications with the lowest total cost compared to competing technologies.

FINANCIAL YEAR 2003

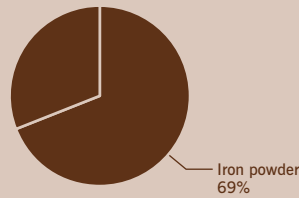
- ▶ Höganäs' sales volumes of iron powder continued to expand in 2003 despite a relatively weak manufacturing cycle on the group's biggest markets. The gains for press powder were 9 per cent on 2002, depend on the continued success of press powder, in North America, Asia, but also, Eastern Europe. Dramatic cost increases on raw materials were a major feature in the year; the cost of nickel and molybdenum, which in value terms, are the biggest raw materials, rose by 90 and 80 per cent respectively in the year. Höganäs is introducing price supplements on its alloying additives from year-end 2004.

Press powder

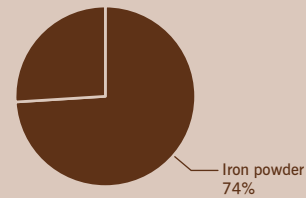
Höganäs' press powder sales grew by some 25 per cent in the US, implying Höganäs continuing to win market shares on what otherwise was a relatively stable market. For the group, this corresponds to a significant volume supplement. This progress is a result of the combination of high quality, service and close customer collaborations, and has also resulted in the share of customer-specific powders increasing, i.e. powders that Höganäs mixes on behalf of customers.

Brisk economic growth in China has unleashed increasing demand for consumer durables, in turn driving the demand for iron powder. Accordingly, Höganäs' facility in China has progressed well, witnessing significant demand gains on customer-specific mixes in the new mixing station. Demand for iron powder has also increased in Russia, Poland and the Czech Republic, which partly offset weak demand in Western Europe.

Iron powder share of consolidated net sales



Iron powder share of consolidated operating income



In July 2003, a new production facility was opened in Brazil, where Höganäs has been established since 1999. This state-of-the-art facility will reduce production costs, while the quality of products will increase significantly. Moreover, the facility provides the right conditions for continued expansion of powder metallurgy in South America.

During the year, significant investments were made in the production capacity of chromium-alloy powder such as Astaloy CrM. The primary growth driver for chromium powder is reduced costs for alloy elements, although better characteristics, in turn enabling the more widespread use of press components in applications such as vehicle drivetrains, is another factor. More information is in the R&D section on page 26.

Other iron powder

Within other iron powder, 2003 largely featured successes in SMCs, with several new development projects initiated in the year, resulting in a total of some 60 different SMC projects. The response from Japanese and US corporations has been particularly positive. Examples of new applications that have reached commercialisation include electric motors for refrigerators and bicycles.

The sales downturn in Japan, of 10 per cent in 2003, is due to a conscious reorientation of low-margin products to those with higher margins.

The use of iron powder within friction, welding, chemistry and metallurgy, as well as carrier cores, was relatively stable in 2003 compared to the previous year.

OUTLOOK FOR 2004 ▶ *Press powder*

Höganäs expects the demand for press powder to continue rising in Asia and Eastern Europe in 2004, against the backdrop of the growth in the automotive industry on these markets. Likewise, Höganäs will continue its expansion on the American market based on high-quality and successful customer collaborations.

A number of tripartite collaborations are also planned in Europe and Asia in 2004, implying Höganäs' development professionals working in close collaboration with customers and end-users right from the design stage, with the intention of reducing development lead-times.

Meanwhile, Höganäs will continue to focus its proprietary development resources on achieving increased compression in finished components, which gives press components greater strength. The path to this objective is mainly through changes in customer processes combined with enhanced materials systems.

Other iron powder

In 2004, Höganäs' other iron powder operations will focus on continuing the geographical expansion in North America, and developing niche applications worldwide, such as food additives.

Growth rates in SMC are expected to increase in the year, as a number of development projects are commercialised. Interest in SMC-based designs is particularly notable from manufacturers of electric motors and electrical machines.

MARKET

- ▶ Basically, the iron powder market tracks general economic trends. If economic activity increases, so does the consumption of iron powder, which principally, is embedded in durables such as cars and white goods. Organic annual growth of some 6 per cent, due to the addition of new applications, is additional for press powder. Apart from general cyclical factors, iron powder demand is also subject to progress in various applications, from welding technology to new electric motors.

In 2003, the global market for iron powder was worth some SEK 8 bn. The North and South American markets predominate, and together, are easily the world's biggest market for iron powder. Europe is the key market for Höganäs' iron powder, generating some 40 per cent of business area net sales.

Five producers generate 80 per cent of global market output. Höganäs is the world's largest producer of iron powder.

Producer	Market share, %	Country	Main markets
Höganäs AB	30–35	Sweden	EU, USA, Japan, Asia
GKN/Hoeganaes Corporation	20–25	USA	USA, EU
QMP	10–15	Canada	USA, EU
Kobe	10–15	Japan	USA, Japan
JFE (formerly Kawasaki)	5–10	Japan	Japan
Other	15–20		

APPLICATIONS

- ▶ *Press powder for component manufacture*

The first usage of press powder was in the 1930s for the manufacture of various components, principally self-lubricating bearings. The powder is introduced to a mould, which is then subjected to extremely high pressure. The press components are then sintered, implying them being heated to approximately 1100 degrees Celsius. Accordingly, the completed components are strong and need little post-processing such as milling and grinding. Moreover, quality is not only high but also consistent, simplifying post-processing.



The primary advantage over competing technologies such as casting, forging and machining is that components made of press powder are usually more cost efficient, with in many cases, cost savings of 20–35 per cent. High capacity to tailor product characteristics by selecting various powder mixes is another benefit.

Other iron powder

WELDING. By adding iron powder to certain welding electrodes, the productivity of welding can increase, while welding characteristics and the quality of welded goods is enhanced.

FRICITION. Brake coatings for cars were developed as early as the 1960s when asbestos was replaced by other materials. One very common type of brake coating is known as semi-metallic, where iron powder is a key component. Semi-metallic brake coatings are the best alternative in terms of cost-efficiency, durability and braking characteristics. The iron powder-based friction material is also used in applications subject to very high standards, such as aircraft. At present, Höganäs has the world's most comprehensive range of metal powders for friction applications.

CARRIER CORES. Carriers are used in large copiers and laser printers to transfer toner pigment to paper. Höganäs offers two types of product for this application, iron powder and spherical magnetite. Both these materials are more environmentally friendly than other alternatives. The products are subject to high standards, highly specialised, and all manufacture is effected according to customer requirements.

SMC. SMCs are a relatively new and highly promising application, a material currently used mainly in various types of iron cores for electronic equipment, and in vehicle ignition coils. However, electric motors harbour the greatest potential, where SMC materials enabled design concepts not possible with conventional laminated steel solutions. By exploiting the material's three-dimensional characteristics, electric motors can be made smaller and more efficient, and at a lower total cost. More information on this in the example application on page 20.

CHEMISTRY AND METALLURGY. Chemical and metallurgical applications is the collective term for those applications that do not come under the remaining headings, and include a wide array of iron powder applications in such diverse spheres as metallurgical and chemical manufacture, pharmaceuticals and foods. Iron powder can either enhance a process or be a raw material for manufacture. On occasion, iron powder is used directly, such as iron supplements in food.



PRODUCT DEVELOPMENT

- ▶ During the year, Höganäs continued to direct its development resources towards the objective of increasing the density of completed components. The path to this objective is through changes to customer processes, through means such as increased usage of warm compacting, which increases the strength of completed components by 20–30 per cent over traditional press methods, without costs increasing notably.

Höganäs press powder enjoys the greatest potential within the Japanese and European automotive industries, where at 8 kg on average per car, vehicles embed only half the press powder components of their US counterparts. This is because American manufacturers have migrated more to press powder components than those in Europe. Additionally, the majority of US cars have automatic gearboxes and four-wheel drive, which have more and larger press powder components.

Höganäs expects that eventually, the press powder content of European cars will converge on those in the US. Gearboxes alone offer a major future potential for press powder components. The potential is approximately 4 kg of gearwheels in the manual gearboxes, and some 10 kg in automatic gearboxes.

On its other iron powder side, Höganäs is still focusing sharply on the development of SMC technology. After its first major commercial breakthrough in 2002, on Aisin Seiki of Japan's manufacture of electric servo motors, another 20 or so projects began in 2003. Overall, Höganäs is pursuing some 60 SMC projects and considers the growth potential as substantial.

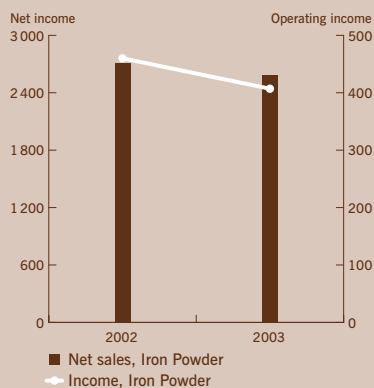
PRODUCTION

- ▶ Höganäs has annual capacity of some 400 000 tons of iron powders, and produced some 320 000 tons of iron powder in 2003, equivalent to over 30 per cent of the world's iron powder production.

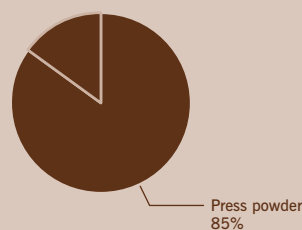
Höganäs has nine facilities for iron powder production, with the majority produced in Sweden and the US.

Facility	Powder orientation
Höganäs, Sweden	Non-alloy and alloy iron powder, mixes
Halmstad, Sweden	Atomised raw powder
Stony Creek, PA, USA	Non-alloy iron powder, mixes
Niagara Falls, NY, USA	Non-alloy iron powder
Ahmednagar, India,	Non-alloy iron powder, mixes
Shanghai, China	Non-alloy iron powder, mixes
Saitama, Japan	Mixes
Mogi das Crusez, Brazil	Atomised raw powder
Jacarei, Brazil	Non-alloy iron powder, mixes

Net sales and income, MSEK



Press powder share of Iron Powder



Iron Powder

	2003	2002
Net sales, MSEK	2 587	2 712
Change, %	-4.6	5.5
Operating income, MSEK	409	460
Operating margin, %	15.8	17.0
Assets, MSEK	3 542	3 621
Liabilities, MSEK	422	568
Investments in fixed assets, MSEK	280	265
Depreciation and amortisation, MSEK	230	211
Average number of employees	1 210	1 227

Examples of powders and their characteristics

Powder grade	Characteristics
ASC 100.29	Iron powder manufactured by atomisation, conferring very positive press characteristics. Can be used in high-strength components such as oil pump impellers.
NC 100.24	Iron powder produced by reducing iron ore; the powder is used for components where high strength after pressing is a key quality, such as shock absorber components.
Distaloy AB	An iron powder diffusion annealed with nickel, copper and molybdenum. This powder is used in components subject to high mechanical standards, such as conical gearwheels in hand-operated machines.

The benefits of press powder in component manufacture:

- ▶ Eliminates, or minimises machining and reduces costs;
- ▶ Minimises material wastage;
- ▶ High tolerances and durability;
- ▶ Enables complex shapes;
- ▶ High-grade surface finish;
- ▶ Unique alloying possibilities;
- ▶ Suitable for modern high-volume production.

A breakthrough for SMCs in buses



Many of the world's major cities use electric buses to protect the environment. Electrical power eliminates exhaust emissions from the city environment, and is also very quiet. The demand for electric buses is expected to grow at a pace with more stringent environmental standards, in Europe, the US, and elsewhere in the world.

Most contemporary electric buses are also fitted with diesel engines, with these hybrid solutions enabling drivers to switch to electrical power from batteries in sensitive environments like city centres. The diesel engine can also be used to charge the electric motor's batteries.

However, these buses are still uncommon because of their relatively high cost and some technical limitations based on the fact that ordinary electric motors are not optimised for use in vehicles. As a consequence, the development of electric motors, batteries and total solutions for future electrical vehicles is being pursued around the world. Buses and city transport vehicles are a high priority, and is a segment where electrical power is expected to make a major breakthrough over the next decade.

Voith Turbo AG of Germany has had a hybrid bus in operation with a high-power electric motor design called ELVO-drive since mid-2003, a unit based on a principle called Transverse Flux Machine, TFM. This motor utilises the unique characteristics of Höganäs' SMC powder, which enable the design's optimisation.

TFM engines are highly efficient and produce very high torque at low revs, enabling a far smaller size than comparable traditional electric motors. Moreover, the high torque enables the gearbox between the electric motor and driven wheels to be simpler, and in some cases, completely eliminated. Voith's pilot model also uses a compact automatic gearbox.

By year-end 2003, the first pilot bus had driven over a quarter of a million kilometres on routes in the German city of Nuremberg; the intention is to bring a further 200 buses designed on Voith's hybrid concept into operation in selected locations this year and next. The object is to demonstrate that the design can fulfil its promise in a broad-based project.

From 2006 onwards, Voith Turbo plans to start selling TFM motors for vehicles, light trains, medium-sized boats and industrial

applications such as operating paper machines. TFM technology is used for engines with outputs of 50kW to 1MW, equivalent to 70–1 400 horsepower.

As in buses, on larger vehicles, these electric motors are often complemented with combustion engines, but there are high hopes for fuel cells, which convert fuels such as hydrogen to electricity directly. However, a few years remain before such cells are commercialised.

Voith Turbo is part of the Voith group, one of Europe's largest family businesses with 24 000 staff at 180 sites worldwide. The company was founded as long ago as 1867, and efforts to build engines with SMC powders began in 1998.

Advantages of Voith's SMC-based electric motors:

- ▶ High power and torque in terms of size. For example, a 58kW (79hp) motor is 30 cm long and has a 30 cm diameter;
- ▶ Very high efficiency, above 95 per cent;
- ▶ Simple manufacture as a result of SMC powder, implying fewer engine components;
- ▶ Integrated water cooling of the magnetic active parts is possible when SMC powder is used in manufacture.

High-alloy Metal Powders



First and foremost, high-alloy metal powder is used as a press powder for the manufacture of high-precision stainless steel components, and as a surface coating powder of various types to increase the strength of exposed components. Additionally, high-alloy metal powders are increasingly used as filters in the chemical and textile industries. There are plans to use high-alloy metal powders for exhaust purification in the automotive industry.

Through its acquisition of US corporation SCM in 2003, Höganäs became the world's largest producer of high-alloy metal powders. The business area consists of two product groups:

- ▶ Press powders for component manufacture, mainly used in the automotive industry;
- ▶ Other high-alloy metal powders with applications in surface coating, high-temperature soldering, welding, as filters in chemistry and textile applications and other chemical applications.

The business area's overall objective is to develop new applications for powder in close collaboration with customers by utilising process know-how from established applications.

- FISCAL YEAR 2003**
- ▶ Höganäs continued its expansion in North America through the acquisition of specialist powder producer SCM Metal Products, Inc. in January 2003. This corporation, which has been a Höganäs supplier for some time, has some 200 staff at its head offices at Raleigh-Durham, North Carolina. SCM's net sales are some MSEK 650, and to some extent, manufactures products Höganäs' did not previously offer, such as powder-based solder pastes and welding electrode materials. Accordingly, SCM complements Höganäs in product and geographical terms, and was successfully integrated into the rest of Höganäs' business in 2003.

Excluding SCM, business area sales in 2003 grew somewhat more slowly because of the adverse effect of production disruptions in its Belgian business on its supply capabilities.

Additionally, operations featured sharp price increases on raw materials in 2003. Prices of nickel, molybdenum, the most important raw materials of high-alloy metal powders, grew by 90 and 80 per cent respectively in value terms in the year. The robust upturn on metals prices in the year exerted an adverse impact on business area profits, because SCM was unable to fully offset the higher cost of materials. Moreover, pronounced exchange rate fluctuations on some of Höganäs' key trading currencies also impeded operations.

- OUTLOOK FOR 2004**
- ▶ On Höganäs' established markets, the demand for high-alloy metal powders enjoys good prospects of continued growth in 2004, mainly driven by new applications. A number of development projects will be ready for commercialisation in the year, examples include the plans for newly developed cylinder coatings for two different car engine models to be taken into full production. Particle filters for purifying diesel exhaust fumes are another segment entering the production phase. Please refer to the example application on page 25.



In the US, which after the SCM acquisition, is the business area's single biggest market, production in SMC's facilities will be co-ordinated with other sites at Stony Creek and Niagara Falls. Off-the-shelf products will be progressively introduced, manufactured in Belgium and the US. Integration continues on the marketing side, and the full range of SCM products will be sold in Europe and Asia through Höganäs' global sales resources.

Overall, the combination of new applications for the business area's products and Höganäs' in-house rationalisation measures is expected to generate a positive effect in the future.

MARKET

- ▶ Demand growth for high-alloy metal powders is primarily driven by developments in new applications. Demand in the West has increased by an annual average of 4 per cent since 1995.

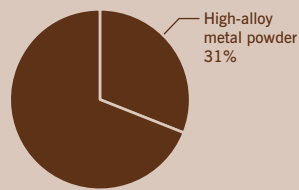
In 2003, the global market for high-alloy metal powder was some SEK 5 bn. Höganäs is active in selected niches on all geographical markets, where there are six significant suppliers of stainless powders, four in nickel alloy powder and five within copper powder. Through its acquisition of SCM, Höganäs is the world's largest producer of high-alloy metal powder with a global market share of nearly 25 per cent.

The biggest market for Höganäs' high-alloy metal powder is North America; in 2003, some 50 per cent of business area net sales were sourced from North America. Europe and Asia generated 35 and 15 per cent of business area net sales respectively.

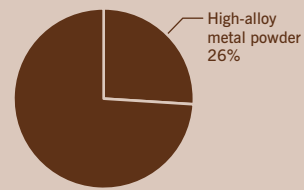
Powder producers

Producer	Powder products	Country	Main markets
Höganäs	Stainless, nickel alloys, copper	Belgium, USA	Europe, USA
Eckart	Copper	Germany	Europe
AcuPowder	Copper	USA	USA
US Bronze/Makin	Copper	USA	USA, Europe
Fukuda	Copper	Japan	Japan
Wall Colmonoy	Nickel alloys	USA	USA, Europe
Castolin	Nickel alloys	Switzerland	Europe, USA
Deloro	Nickel alloys	UK	USA
Ametek	Stainless	USA	USA
Atmix	Stainless	Japan	Japan, Asia, USA
GKN/Hoeganaes Corp	Stainless	USA	USA
Daido	Stainless	Japan	Japan
Dynamet	Stainless	USA	USA, Europe

High-alloy Metal Powder share of consolidated net sales



High-alloy Metal Powder share of consolidated operating income



APPLICATIONS

► *High-alloy metal powder press components*

Valve seats, exhaust gas flanges, ABS sensors, airbag system components and self-lubricating bearings are typical automotive industry components. Moreover, high-alloy press powder components are used mainly in the food, aerospace industries and the office machines industry.

Other high-alloy metal powders

SURFACE COATINGS. Components exposed to wear or abrasion are often coated with a protective powder surface, which confers enhanced corrosion and heat resistance. Typical components are glass moulds, valves for the process industry, rollers, and valves in automotive engines.

FILTRATION. Stainless powders are used in pressed and sintered form, as well as in powder form. Their main applications are in the chemical and textile industries. Filtering in the production of polyester and polyamide fibres is a high-growth segment, particularly in Asia.

HIGH-TEMPERATURE SOLDERING AND WELDING. Nickel-based powders are primarily used for high-temperature soldering of stainless steel components. Radiators and heat exchangers are a typical soldering application. High-temperature soldering is finding new applications as automotive industry environmental standards become more stringent, with one example here being heat exchangers for diesel engines. GLIDCOP® is a copper-powder based extruded material that possesses unique high-temperature conduction characteristics, and is used in applications such as autobody spot welding.

CHEMISTRY. Copper oxide in powder form is produced in the US and used as an additive across an array of applications to limit and reduce fungus and mould contamination of building materials and pigments. It is also a catalyst in the preparation of silicon materials.

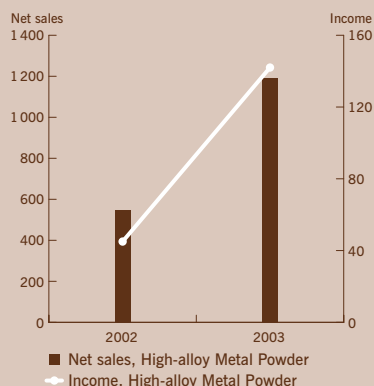
PRODUCT DEVELOPMENT

- High-alloy metal powder enjoys high growth prospects in the automotive industry with new applications for diesel engines such as diesel particle filters and EGR (exhaust gas recirculation) coolers. Diesel particle filters also reduced NO_x content by binding to powder particles. Ecological thinking is the driver of product development in both cases.

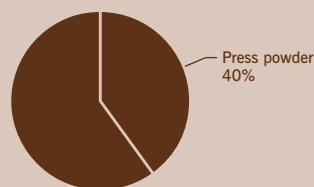
Replacing cylinder liners in aluminium engine blocks with metal powder surface coatings by means of plasma injection direct into cylinder bores is another ecological automotive industry application. This application is driven by reduced production costs and lower fuel consumption.

Replacing chromium plating with surface coatings in various high-speed processes is another application offering substantial potential, but that lies further ahead in the future. Because of the environmental risks associated with chromium plating, identifying technically viable and economical alternatives is the subject of acute interest.

Net sales and income, MSEK



Press powder share of High-alloy Metal Powder



Within copper-based powders, which are newly acquired corporation SCM's speciality, a number of highly promising forward-looking projects are in hand. These involve changes to powder morphology (surface structure) through oxidation and reduction, which opens a wealth of new opportunities, particularly in the automotive industry, by enabling the simplification of processes such as shaping steel plate.

PRODUCTION

- ▶ Principally, Höganäs' high-alloy metal powders are manufactured through atomisation, a process whereby gas or water at high-pressure is directed at the smelt, which is then atomised and hardens. Various cooling media are used to confer particles with various shapes and purity, which can be exploited to give the powder those characteristics that the various applications require. Stainless powders are the biggest alloy group, followed by nickel, high-speed steel, copper and cobalt alloys. Höganäs' total production capacity of high-alloy metal powder is some 35 000 tons. A total of some 27 000 tonnes of high-alloy metal powder was produced in 2003. The high-alloy metal powder business area has production in three countries.

Facility	Powder orientation
Ath, Belgium	Iron, nickel and cobalt base alloys
Tonbridge, UK	Iron base alloys
Stony Creek, PA, USA	Iron, nickel and cobalt-based raw materials
Raleigh-Durham, NC, USA	Copper
Johnstown, PA, USA	Iron, nickel and copper base alloys

High-alloy Metal Powder		
	2003	2002
Net sales, MSEK,	1 191	547
Change, %	117.7	-2.1
Operating income, MSEK	143	47
Operating margin, %	12.0	8.1
Assets, MSEK	1 114	514
Liabilities, MSEK	160	71
Investments in fixed assets, MSEK	29	63
Depreciation and amortisation, MSEK	49	23
Average number of employees	439	199

Metal powders in the diesel engine exhaust filters of tomorrow



Diesel engines are far more fuel-efficient than their petrol counterparts, and accordingly, are expected to become even more common. The dark exhaust visible when these engines are put under heavy loads, however, is a significant disadvantage. This exhaust consists of hazardous soot particles, which include carcinogenic hydrocarbons. These particles must be separated if diesel engines are to satisfy progressively more stringent environmental standards. Höganäs' metal powders are used in a new type of filter that satisfies these standards.

Filters that eliminate up to 99 per cent of all particles have been fitted to freight vehicles and cars in recent years. Until the present, the most advanced filters have been made from ceramics, although they have the disadvantages of high manufacturing costs, complex purification and they need regular exchange, while used filters are an environmental hazard.

However, an entirely new solution, with none of the disadvantages of ceramic filters, is now available. HJS Fahrzeugtechnik has developed a sintered metal filter that is cheaper, longer lasting and easier to clean. Moreover, it offers almost 100 per cent decontamination. These filters made their commercial breakthrough in 2003. Höganäs has developed and supplies the high-alloy metal powder that is the key to the new filter.

Long-term efforts pay off with an ecology prize

Since 1992, HJS of Germany has been developing a highly effective diesel particle filter, testing various materials and designs. Filters manufactured using Höganäs' high-alloy metal powder have proved to be the only alternative as effective as ceramics in terms of bonding with particles, but without the disadvantages.

At present, the best ceramic filters last for 100 000 km, while HJS's sintered metal filters last at least 250 000 km. When scrapped, the sintered metal filters are fully recyclable, unlike ceramic filters, which must be processed as hazardous waste.

In order to avoid the particles blocking filters, regular cleaning is necessary. There are various solutions for this, but generally, ceramic filters are far more difficult to clean than HJS filters.

There had been concerns that particle filters would limit engine power until HJS put its filters to the test at the Truck Grand Prix, demonstrating that its products can cope with very heavy loading without engine power being compromised.

In October 2003, Hermann J. Schulte, HJS's owner and CEO, received Germany's premier environmental award for his invention from Deutsche Bundesstiftung Umwelt; it was presented by Germany's President, Johannes Rau.

New EU standards in 2004 driving progress

Throughout the development process, Höganäs' German enterprise has offered support with laboratory testing, offering information on various metal powders and ensuring that metal powder characteristics can be modified to suit HJS's standards and specifications. Each filter uses 2 kg of Höganäs high-alloy powder.

Bosch has acquired the global licensing rights for the filter for installation in cars. In Europe alone, six million new diesel vehicles are registered every year.

The first cars equipped with sintered metal filters are expected to roll off the production line in the second half-year 2004. From next year onwards, Germany and other EU countries will introduce tax concessions for diesel engines fitted with particle filters.

In parallel, HJS will be launching its filter for specialist vehicles, buses and light trucks, while HJS has also retained the rights to spare part sales, with implications including ceramic filters being exchanged for sintered metal equivalents in those vehicles the company previously fitted with particle filters. Verkehrsgesellschaft Berlin, which manages Berlin's bus traffic, is just such a customer.

Research and development – focusing on growth



Höganäs leads progress in the iron and metal powder sector; it aims to always be first to launch new products, reflected in contexts including the size of the group's R&D function, which is the largest in the sector. Moreover, a significant portion of Höganäs' research is in collaboration with subcontractors, customers, end-users and university and research institutions.

Successful product development is the key to increased sales, and this lesson interweaves Höganäs' research and development efforts. Research and development alongside customers enables Höganäs to create new applications for its products. Moreover, active collaborations with customers and end-users mean that lead-times from experiment to commercial launch and acceptance can be significantly reduced.

Höganäs' R&D function brings new characteristics to materials from its understanding of customers' and end-users' situations through process technology and application development. Höganäs invests some 4 per cent of consolidated sales in research and development every year, against the rest of the steel sector, which on average, spends 1–1.5 per cent of net sales. The automotive industry invests some 6 per cent of net sales in research and development.

At present, Höganäs' R&D function employs some 120 staff, 15 of which are technology Ph.D.s. The majority of these professionals are based in Sweden, but as Höganäs has globalised, units have been formed in the US, Belgium and Japan, primarily oriented on application development, but that also put out feelers on Höganäs' key markets. Additionally, technologically skilled staff close to customers accumulate an understanding of end-user processes, from raw materials to end-products. In Sweden, Höganäs possesses comprehensive laboratories, enabling the examination of the entire process right until the production of prototype components. There is a continuous exchange of best practice within Höganäs and selected customers, subcontractors, universities and end-users.

FULL COMPRESSION ▶ A significant portion of research and development work is oriented on increasing the compression of pressed components, because greater density means greater strength. At present, press powders can be compressed to 7.3 g/cm³, against 7.8 g/cm³ for conventional steel. In pilot environments, Höganäs has achieved compression of over 7.6 g/cm³ with press powder. Although some time remains until the commercial launch of this technology, Höganäs has come sufficiently far that it is commercially feasible to produce gearwheels, with basically, the same surface compression as steel, but with far less processing.

The more processing a conventional steel end-product necessitates, the greater its manufacturing costs. Press powder components have accurate geometry and narrow tolerances, often without any machining, in turn implying low manufacturing costs. At present, Höganäs is examining its possibilities of using press powder for gearwheels in gearboxes. The potential amount is some 4 kg of wheels in manual gearboxes and 10 kg in automatic gearboxes. At present, neither European nor Japanese gearboxes use press powder wheels, and only a small number do so in the US.



SMC POWDERS

- ▶ Höganäs' new products Somaloy 500 and 550 were introduced into over 20 electric motor applications in the year. This material enables motor current flows to be optimised, which means high energy efficiency and up to three times more torque. Thereby, SMC motors are particularly suitable where high power is necessary at low revs. Moreover, these motors can be made smaller and lighter than their traditional counterparts made from laminated electroplate. Three-dimensional designs enable efficient windings to reduce copper volumes in motor stators. SMC's are also used in other applications such as iron cores for electronic equipment and car ignition coils. The development of SMC's is one of Höganäs' high priorities; over five billion electric motors are produced in the world every year, and a high portion are suitable for SMC technology.

CHROMIUM REPLACING NICKEL

- ▶ In the late 1990s, Höganäs launched an entirely new product based on chromium as an alloying element. This product, which confers unique strength characteristics, while simultaneously offering major ecological benefits, has been evaluated by customers and introduced into a broad array of new components. The production capacity of this product is now being extended to satisfy high demand. Additionally, Höganäs has refined the material, launching a new product, Astaloy CrL in 2003, mainly suitable for components that necessitate high strength after heat treatment for a low manufacturing cost. The benefits of chromium-alloy powder for end-users are in terms of cost, because chromium replaces the more expensive nickel, and ecological, because chromium alloys are recyclable unlike conventional mixes that often contain copper and nickel.

Starmix technology was also refined in 2003, with improvements based on the choice of organic additives, binding agents such as wax and grease, as well as a new process technology. The metal powder causes less dust and has greater creep, increasing the number of components that can fit presses. The consequence is capacity increases of up to 30 per cent. The technology is most applicable to narrow tolerances, as apply to new components. Alternative manufacturing methods such as forging and casting have relatively high measurement variation.

PATENTS

- ▶ Höganäs' patent strategy proceeds from seeking protection on all key markets, or about 15 countries. Overall, Höganäs currently has over 350 patents granted on these markets. Global patent protection is 20 years, and in 2003, Höganäs filed applications for 12 innovations, implying over 100 patents in various parts of the world in a few years.

Procurement – a strategic resource



Procuring raw materials plays a vital role for a processing corporation like Höganäs, and good supplier relations create the right prospects of achieving 100 per cent delivery reliability, and the lowest total costs for Höganäs and its customers.

A TRANSFORMED ROLE

- ▶ Arguably, of all Höganäs' functions, procurement has undergone the most dramatic transformation in recent years. From its former status as a service and support function for production, procurement has gained, and will continue to gain, increasing strategic significance. In a contemporary corporation like Höganäs, procurement is so broad based that it influences most other functions through materials flows – everything from R&D and design to production, logistics, accounting and marketing. Its role as a co-ordinator of the corporation's in-house and external resources makes procurement a strategic resource that is highly significant to the group's profits.

CONCENTRATED PROCUREMENT

- ▶ The supply of Höganäs' raw materials is heavily dependent on 100 per cent delivery reliability and quality, to avoid customers being affected. Generally, Höganäs' procurement efforts feature long-term, close collaborations with selected suppliers. Of all suppliers worldwide, about 100 provide approximately 60 per cent of the group's total procurement. The 10 largest providers supply 20 per cent of the group's total procurement in value terms.

Some 30 per cent of Höganäs' total procurement was in Sweden in 2003, where the group's main suppliers of steel scrap and iron ore are based. Suppliers in the rest of Europe provided a total of 40 per cent of the group's procurement in 2003, while those outside Europe supplied nearly 30 per cent. The location of procurement depends on a series of factors such as pricing, transportation and supply lead-times, import regulations and quality considerations.

EVALUATING SUPPLIERS

- ▶ Höganäs enjoys long-term, smoothly functioning supplier relationships. Despite the fact that its purchasing volumes make Höganäs a small customer for mining corporations, for example, it is probably the most demanding. However, suppliers appreciate these high standards, which are the consequence of Höganäs' advanced research and technology, because they contribute to the development of suppliers' products. Höganäs evaluates its suppliers regularly, not only to motivate them, but also as a natural element of the group's long-term quality and development initiatives.

Höganäs reviews and evaluates all quality-critical suppliers every year, categorising them by significance. Key suppliers, i.e. those with a direct influence on end-products, such as suppliers of raw materials and packaging, are subject to particular scrutiny. Products, performance, quality and environmental management systems are key evaluation criteria, where aggregate assessments are more important than the constituent parts. Höganäs pursues consistent group-wide evaluation criteria for this purpose.

The result is a classification and rating, with class A suppliers termed 'preferred suppliers', class B suppliers as 'approved suppliers' and class C being those suppliers that either need to make significant enhancements, or are being discontinued. The standards applying to class A status are very challenging, and should be viewed as an ideal for all suppliers.

Some of Höganäs' class A suppliers in 2003

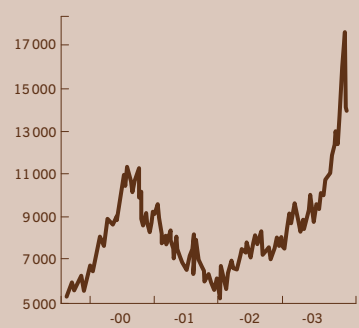
Supplier	Country	Product
Holje Trading	Sweden	Steel scrap
LSM	UK	Alloys
HC Starck	Germany	Molybdenum
Stena Gotthard	Sweden	Steel scrap
Clariant	Germany	Chemicals

Steel scrap, USD/ton



Source: Metal Bulletin

Nickel, USD/ton



Source: LME

At present, approximately 20 per cent of Höganäs' key suppliers are class A, with this figure gradually increasing through a structured approach to supplier development. High supplier quality creates vital value-added for Höganäs, and accordingly, is a procurement priority.

METAL PRICES SURGE IN 2003

- ▶ International scrap and metal prices have been increasing rapidly since mid-2002, with price increases on scrap of 50 per cent, and 120 per cent on nickel, both in dollar terms. Hopes of a turnaround in the global economy, reduced inventories, and notably, a burgeoning Chinese market consuming a growing portion of raw materials, were the key drivers. Basically, China is responsible for the entire demand increase on metal commodities markets in recent years.

Ambition

- ▶ With consideration to its business concept, Höganäs' procurement functions will contribute to consolidating the corporation's long-term competitiveness and profitability;
- ▶ Procurement will be concentrated on selected providers;
- ▶ However, for strategic materials, Höganäs will pursue always maintaining at least one alternative supplier or product.

Policy

- ▶ In its practical efforts, Höganäs will pursue its overall interest, while satisfying high ethical standards;
- ▶ Procurement will be based on healthy, long-term relationships with competitive and secure suppliers, who in turn, will be offered the prospects of satisfying Höganäs' 100 per cent delivery reliability requirement.

Implementation

- ▶ Höganäs' local procurement functions are accountable for the commercial, administrative and legal aspects of procurement. The co-ordination of selected strategic procurement is centrally controlled by Höganäs' Vice President of Procurement;
- ▶ Höganäs regularly approves and evaluates its suppliers on the basis of business practices, product quality, as well as quality and environmental management systems;
- ▶ Höganäs' suppliers are encouraged to strive continually to enhance quality, quality assurance systems and operational efficiency;
- ▶ The ambition of Höganäs' procurement function is to offer every supplier reasonable prospects of satisfying its 100 per cent delivery reliability requirement.

Maximum quality means minimum total cost

Höganäs will not only maintain optimal quality in all aspects of its business, but should also be perceived as exceptional. This extends right from the development of new products, through the performance and characteristics of supplied products, to the quality of its monitoring, and understanding, of customer standards and requirements. This quality philosophy interweaves Höganäs' entire organisation – exceptionally high quality assures that Höganäs products offer its customers the lowest total cost.

MONITORING AND HIGH MINIMUM STANDARDS

- ▶ The entire corporation has possessed ISO 9001: 2000 accreditation from 2003, which is a standard assuring that Höganäs does not compromise quality anywhere in its organisation, but also serves as a guideline for the minimum standards of its efforts. Höganäs retains this accreditation through six-monthly audits. In addition, Höganäs has QS 9000 accreditation, which is specifically intended to satisfy automotive industry subcontractor quality standards. Otherwise, Höganäs performs regular local, internal audits to verify that quality policies and routines are being observed.

EXTERNAL AND INTERNAL BENCHMARKING

- ▶ Höganäs continuously maintains a Customer Satisfaction Survey, where customers express their opinion of Höganäs as a supplier against its competitors on the basis of the following criteria: accessibility, logistics, product quality, support, communication, R&D, complaints and sales terms. In the most recent survey, which encompassed one-third of its customer base, Höganäs outperformed its competitors in all categories apart from its willingness to negotiate on price.

Höganäs' extensive acquisitions and major investments in recent years have created a global corporation. Therefore, a significant portion of its quality initiatives are based on internal benchmarking between production facilities, job exchanges between countries and facilities, and by monitoring local key indicators.

In 2003, Höganäs undertook a major initiative on mapping the processes and flows within Höganäs Sweden, to identify those activities that created value, thus enabling required rates of return and strategic objectives to be converted to detailed targets for the various processes. Now, every unit within Höganäs Sweden can understand what is necessary for Höganäs to satisfy its targets. Höganäs will be implementing a global process philosophy from 2004 onwards, enhancing global co-ordination of its strategic objectives.

ACTIVE COMPETITIVE EDGE

- ▶ Iron powder is a 'living' material, whose characteristics vary between manufacturing facilities. This makes it difficult for the sector's customers to pursue multi-supplier systems in manufacturing. Since opening the Stony Creek facility in 2001, Höganäs has enjoyed the possibility of identical production processes of its water-atomised iron based powder grades ASC 100.29 and AHC 100.29, marking a momentous step in its globalisation. In many cases, the end-users of Höganäs products are global corporations that require stable product quality, with low variations in characteristics, because in turn, these customers often possess identical facilities.



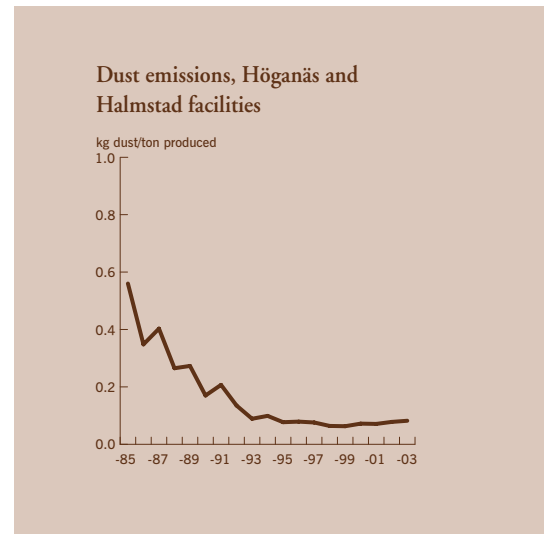
Moreover, many end-users require delivery reliability from their subcontractors through local production and back-up production capacity. The planned extension in China will enable Höganäs to achieve identical production processes in America, Europe and Asia, conferring stable products with minimal variations. This will confer Höganäs with a major competitive edge because multinational customers will be able to produce their components without quality problems independent of the source of metal powder.

Policy

Höganäs' objective is to achieve and retain a quality and service level, which customers perceive as exceptional, through:

- ▶ A customer-focused organisation that understands and observes customer standards, as well as prevailing legislation and ordinances;
- ▶ Efficient processing and communication coincident with customer feedback, including customer complaints;
- ▶ Committed corporate management and staff that are motivated, well trained and the most knowledgeable in the metal powder industry;
- ▶ Products and deliveries that arrive at the right time, with appropriate and consistent quality, and pursuant to prevalent customer standards, legislation and ordinances;
- ▶ A process focus on continuous improvement, the prevention of errors and reducing variations and waste. Products and process enhancements through defined objectives and quality targets;
- ▶ Long-term growth and profit, extending to suppliers and customers, through the 'lowest total cost' concept.

Strategic environmental initiatives



Largely, the production of Höganäs' iron and metal powder is based on recycled materials; the usage of iron and non-ferrous metal powders is generally more energy efficient and causes less waste than conventional production methods. Höganäs pursues the reduced consumption of resources and environmental impact in its production.

AN ENERGY-EFFICIENT END-PRODUCT

- ▶ The production of metal powder components is an energy efficient method that consumes up to 50 per cent less energy than the production of comparable components by casting and machining.
 Apart from lower energy consumption in manufacture, the utilisation of materials is high, at 97–100 per cent. Machining of cast components can result in wastage of up to 50 per cent, and this waste must be processed in various ways.

ECOLOGICAL APPLICATIONS

- ▶ Iron powder has proved very positive in purely ecological applications; it has good characteristics for processing waterborne and land contamination, and for purifying sulphur in exhaust fumes.

RECYCLED MATERIALS

- ▶ A high share of total production is based on recycled iron and steel scrap, with this portion comprising some two-thirds of total output in 2003, with the remaining one-third based on iron ore. Apart from procured scrap, a high proportion of the iron-content waste products produced are recycled into production. In iron ore-based production, about 45 per cent of the reduction material input is recycled.

REDUCED EMISSIONS

- ▶ Höganäs is pursuing long-term efforts to reduce its airborne emission volumes; emissions have gradually been reduced in terms of kg/ton produced, as is apparent from the above tables.

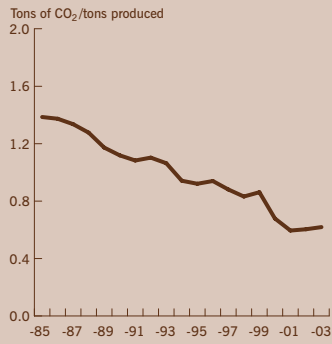
PERMITS

- ▶ Permits are required to produce iron and non-ferrous metal powders in Sweden and the other countries where Höganäs has production. These permits primarily regulate production volumes, emissions (air and waterborne), noise pollution and waste, and are prerequisite for Höganäs to produce powder. These permits are either time finite or indefinite, and apply to all production facilities, although the Belgian permit is being supplemented.

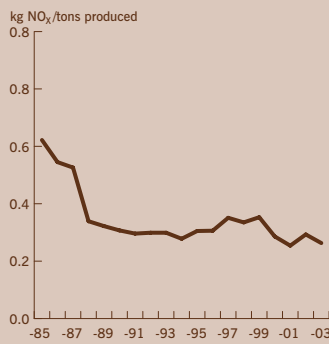
ENVIRONMENTAL MANAGEMENT SYSTEMS

- ▶ In order to pursue environmental issues in the corporation systematically, Höganäs has resolved to use ISO 14001 as a tool in its production facilities. The production facilities in Sweden, the US, India and Brazil (partly) are accredited. Facilities in Belgium, the UK, and the remainder in Brazil will be accredited in 2004.

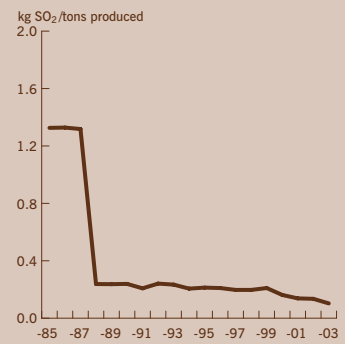
CO₂ emissions



NO_x emissions



SO₂ emissions



1985-1999, Swedish production facilities
2000 onwards, the group's overall operations.

ENVIRONMENTAL INITIATIVES IN 2003

First and foremost, Höganäs' practical environmental initiatives are oriented on efforts to ensure the minimum possible impact on the external environment around its production facilities. Measures including the following were taken in 2003:

- ▶ Examination of the prospects of utilising surplus heating in the Municipalities of Halmstad and Höganäs, Sweden. Although the former did not have the right economic conditions, continued efforts are being pursued in Höganäs, in collaboration with the Municipality;
- ▶ Installation of spark quenching equipment in furnace outlets at Halmstad, Sweden, to reduce the risk of damage to filter equipment;
- ▶ Replacement of ozone-depleting coolants with less hazardous equivalents in a number of large coolers at Halmstad and Höganäs;
- ▶ Tarmac coating of outdoor space at Stony Creek, USA, to reduce diffuse dusting and limit the contamination of surface water run-off;
- ▶ Installation of new filter equipment at SCM, Johnstown, USA, to reduce copper emissions into the environment;
- ▶ Installations of filters at Niagara Falls, USA, to reduce dust emissions from oxide scale processing;
- ▶ ISO 14001 accreditation of production facilities in Brazil and the US.

Objectives

- ▶ Environmental initiatives are a strategic issue for Höganäs;
- ▶ Höganäs is a good corporate citizen and actively pursues a better external environment, in terms of its working environment, outdoor environment and product design;
- ▶ Höganäs pursues constant improvement based on established environmental objectives and action-plans. Höganäs takes its actions on a prioritised basis, according to effect on humans and nature, wherever this is technically possible and economically viable;
- ▶ The ISO 14001 environmental management standard is used as a tool in the group's production units;
- ▶ Environmental considerations are a mandatory element of decision support data when selecting manufacturing processes and products.

General guidelines

- ▶ Operations are structured in a resource-efficient manner, with low energy, raw materials and water consumption, and the minimum incidence of waste;
- ▶ The prevention of pollution is effected in terms of airborne and waterborne emissions, land contamination and noise;
- ▶ Höganäs observes prevailing legislation, ordinances and other formal standards in each country where it is active. Höganäs also strives to maintain a higher standard than legislated minima;
- ▶ Höganäs' environmental initiatives are founded on all staff possessing good knowledge and open internal communication;
- ▶ Höganäs establishes and maintains good relationships with the authorities, local residents and other interested parties.

Höganäs' workforce is globalised



Höganäs had more staff outside Sweden than within Sweden for the first time in 2003, with the corporation's staff now in every corner of the world. Despite a growing staff headcount, Höganäs has succeeded in retaining the character of a smaller enterprise, with many people maintaining extensive personal networks. The result is that staff can exchange knowledge and experience between countries, facilities and departments, quickly and without status getting involved. Höganäs' objective is for all staff to have the opportunity to take on stimulating duties that help their career progression, proceeding from their individual prospects and the organisation's requirements.

EXCHANGE OF BEST PRACTICE

- ▶ Höganäs pursues the continuous exchange of best practice between staff in the various parts of the group. The parent company runs various over-arching training programmes and seminars, with participants from around the world.

A contact network of staff worldwide supplements Höganäs' formal organisational structure. For example, sales staff from branches in Europe, Asia, North or South America convene to exchange experience and develop routines together.

When new production equipment is installed, staff with experience of similar initiatives in other Höganäs facilities arrive on-site to offer know-how, while the process operators that will work in the new facilities are also trained at a site already in production. In this manner, operators from facilities in Sweden, for example, have participated in start-ups of investments in the US, China, India, Brazil, and Belgium, while operators from these countries have been trained in Sweden.

FURTHER EDUCATION SUPPORT

- ▶ For about ten years, Höganäs has consciously sought to enhance skills levels, both through further education and in its recruitment policy.

Höganäs enjoys low staff turnover, partly due to the individualised development plans it pursues for its staff. For example, development plans may comprise scheduled courses or an express desire to work within another country's organisational structure.

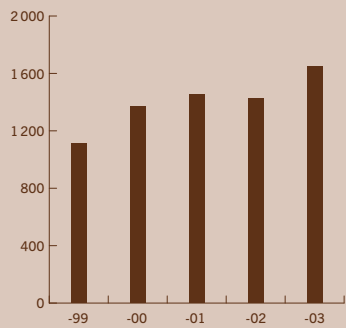
The importance of these initiatives is corroborated through the scholarships and other financial incentives the company provides for staff seeking further education, and this applies both to the training necessary for current duties, and that may be necessary to cope with the changes that arise over time.

COMMUNICATION AND INFORMATION

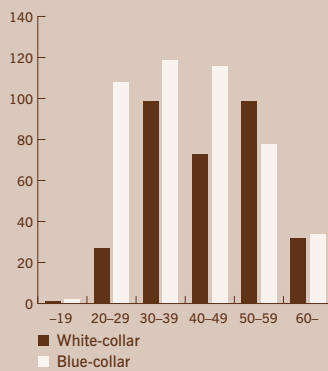
- ▶ Group-wide communications systems, computer systems and databases offer Höganäs staff worldwide a shared information and communication medium.

All staff have access to an intranet that uploads everything from quality assurance systems and group-wide routines and policies to an internal phone book and presentations of staff, countries and their cultures. The systems are available when different time zones prevent immediate communication.

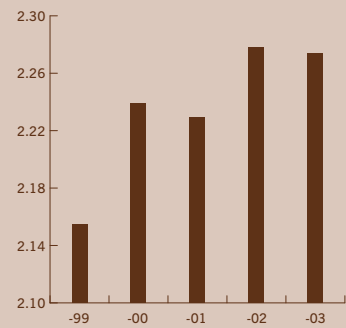
Average number of employees, group



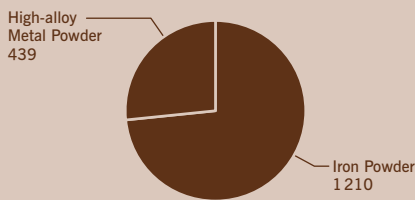
Age profile



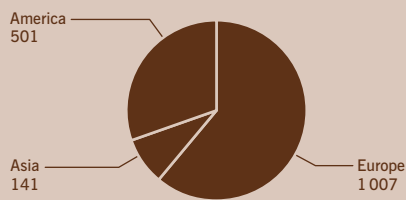
Net sales per employee, MSEK



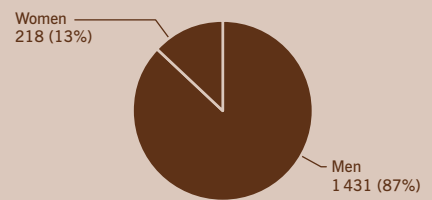
Staff by business area



Number of staff by region



Gender profile, group



FEELING BETTER – A KEEP-FIT INITIATIVE

- ▶ Despite the fact that Höganäs' sickness absence levels have never been a problem, the corporation has been pursuing an initiative in Sweden called Må bättre! (Feeling Better) since 2002, a preventative programme designed to increase the numbers of long-term healthy employees by raising health consciousness. The right leadership is vital to achieve this objective, and the initial seminars dealt with management roles in this context. This plan, which encompasses all staff in Sweden, is based on seminars with lectures on keep-fit. Höganäs disseminates knowledge and offers concrete support under the auspices of this programme. But ultimately, the onus is on individual employees to take the decisive step to a healthier lifestyle.

INCENTIVES

- ▶ Bonuses are paid to individual staff members on those few occasions when the results of their efforts far exceed established objectives, or where local conditions in a country necessitate such remuneration.
 - A profit-share scheme requires the return on capital employed in a year exceeding 25 per cent; no payouts have been made since this scheme was introduced in 2001.
 - The stock option plan encompasses a total of 600 000 options at a premium of SEK 20.60 with an exercise price of SEK 185. This plan expires in 2005, and so far, no options have been redeemed.

Ambition

Höganäs' human resources policy is intended to contribute actively to achieving Höganäs' strategic objective of being an attractive workplace.

Policy

Höganäs' view is that a successful organisation needs:

- ▶ Committed and motivated staff – everyone contributing actively;
- ▶ Respect for every individual's unique characteristics, circumstances and skills.

Implementation

- ▶ Working methods that promote teamwork;
- ▶ Continuous skills enhancement through training efforts, and by a recruitment policy that contributes to this;
- ▶ Mutual loyalty, commitment, interest and efforts between employer and employee;
- ▶ Remuneration packages that reward good performance.

Höganäs monitors the progress of the essential risks to its business, both operational and financial, on an ongoing basis. The biggest risks are considered and dealt with regularly, at the strategic planning stage. All major identifiable risks are considered within this framework, with decisions on the resources necessary for their ongoing management made simultaneously.

OPERATIONAL RISKS

- ▶ Sales risks encompass production, product, delivery, pricing and payment risks. Some of these commercial risks lie in-house while others are exogenous. Such risks are managed by line managers in sales, production, logistics, development and quality functions.

Dependence on individual customers or customer groups is minimised through the group's broad-based customer base and geographical diversity. Accordingly, the potential loss of any individual customer would not seriously affect the group's profitability.

Principally, procurement risks comprise delivery, quality and price risks on strategic materials and energy. The procurement functions of individual production facilities are accountable for the management of these risks, while the parent company's procurement functions are responsible for the procurement co-ordination and risk management of selected metals and strategic raw materials.

All raw materials are provided by multiple alternative suppliers in Europe and the rest of the world. Höganäs thoroughly scrutinises each supplier's prospects of satisfying its challenging standards (see the procurement section on page 28) in the selection process. Höganäs does not consider that the group would be seriously affected by any individual supplier failing to satisfy the relevant standards.

Facility and environmental risks are managed by the producing subsidiaries alongside the group's environment and safety functions. Additionally, Höganäs pursues close collaborations with the group's insurance brokers and advisers on defining and managing the risks associated with its facilities and production stoppages.

The risks associated with economic progress, politics and competitive considerations are mainly managed by subsidiary Boards of Directors alongside the group management.

The progress of these risks exerts a major impact on structuring the group's strategic plans.

Intellectual property-related risks are managed by the group's central research and development function.

The risk of plagiarising new products and processes is high, and accordingly, significant resources are assigned to patent unique intellectual property.

Höganäs' IT and human capital risks are managed by the group's centralised IT and HR functions alongside the security function.

Readers are referred to [Note 24](#) on financial instruments and other risk management, which offers a detailed review of the group's financial policy, for information on how Höganäs manages its financial risks.



SENSITIVITY ANALYSIS

- ▶ Höganäs is exposed to a number of risk factors that influence its profit performance, several of which lie outside its control. The following table illustrates the effects of some changes and their influence on consolidated income proceeding from the Income Statement for 2003.

Sensitivity analysis	Base, MSEK	Change	Profit influence, MSEK
Volume	3 750	10 %	100
Currency exposure	1 500	10 %	150
Cost of materials	1 300	10 %	130
Payroll costs	700	10 %	70
Interest-bearing liabilities	1 650	MSEK 100	2,5
Interest rates	1 500	1 %	15

FINANCIAL RISKS

- ▶ Höganäs' financial policy, which is controlled and monitored by Höganäs' Board, states the framework for funding of the various types of financial risk. The policy defines the risk exposure to which operations are pursued; the primary consideration is to pursue a low risk profile. The management of financial risks such as interest risk, liquidity risk, financial credit risk and currency risk are described in more detail in [Note 24](#) on financial risks and other risk management.

Financing activities are centralised on Höganäs AB's Finance function, with this unit accountable for the group's financial risks, and functioning as group treasury. Additionally, currency/interest and metal derivative instruments are used pursuant to mandates from the Board of Directors, Currency Committee and group management.

Höganäs accounts in SEK (Swedish kronor). Considering that Höganäs has a significant portion of its capital employed denominated in foreign currencies, funding is primarily raised in these currencies, or various derivatives are used to achieve 100 per cent hedging of capital in convertible currencies. Additionally, interest swaps are used to control the interest fixing of net borrowings. For more detail, please refer to [Note 24](#) on financial instruments and other risk management.

LEGAL RISKS

- ▶ A number of real estate owners (neighbours of the Niagara Falls, USA, facility) have filed a lawsuit against North American Höganäs for iron particle fall-out on their property. Total damages claims of MUSD 10 have been filed, relating to unsubstantiated claims of value reduction and deteriorated utility value for these properties. Höganäs' advisers consider the risk of any damages liability as very limited.

Corporate governance

HÖGANÄS AB'S BOARD OF DIRECTORS

- ▶ Höganäs AB's Board of Directors has seven regular members elected by the Annual General Meeting, and two members with two deputies appointed by employees. The Board of Directors has approved procedural rules that regulate its actions. The procedural rules encompass issues including agendas for scheduled board meetings, instructions for financial reporting and the division of responsibility between the Board and CEO.

BOARD ACTIONS IN 2003

- ▶ The Board of Directors held five scheduled meetings in the financial year 2003; essentially, the company progressed according to plan in the year. The Board of Directors has proactively considered issues at an early stage, focusing on the progress of ongoing projects and programmes. The corporation's auditors were present at two Board meetings, and participated in the Board's consideration of the financial statement, when they presented the findings of their audit.

Apart from the scheduled issues, the Board of Directors considered the following in the year:

- ▶ The acquisition of SCM
- ▶ Investing in Astaloy capacity
- ▶ Appointing auditors
- ▶ Prices of raw materials and alloy elements
- ▶ Creation of a Nomination Committee
- ▶ Group strategy
- ▶ Investments in China
- ▶ Exchange rate variations
- ▶ The production situation in Belgium

MONITORING AND AUDITING

- ▶ The Board of Directors has overall responsibility for the corporation's internal monitoring system, which is designed to ensure the efficiency of operations, and the observance of legislation and ordinances: additionally, the corporation has a series of methods to continuously monitor and control the risks associated with achieving its objectives. External auditors are elected by the AGM for a period of four years. KPMG and Frejs Revisionsbyrå AB have been appointed as auditors until the AGM 2007.

COMMITTEES

- ▶ The Nomination Committee, appointed at the end of November 2003, comprises Chairman of the Board Ulf G Lindén, Tomas Nicolin of the Third AP (National Pension Insurance) Fund, Peter Rudman of Nordea fonder (mutual funds) and Henrik Didner of fund manager Didner & Gerge. There is also a Remuneration Committee within the Board of Directors, whose members are the Chairman of the Board and the Deputy Chairman. The Remuneration Committee considers salaries and other employment terms applying to the CEO, and proposes guidelines regarding his immediate subordinates.

GROUP MANAGEMENT

- ▶ The Chief Executive Officer heads the group management's initiatives, reaching decisions in consultation with its members. The Chief Executive Officer supplies the Directors with the information necessary to monitor the company's and group's position, operations and progress on a monthly basis, and keeps the Chairman of the Board informed on operations on an ongoing basis. The group management's members are Claes Lindqvist, Ulf Holmqvist, Sten-Åke Kvist and Jan Lundahl. From April 2004 onwards, Annette Kumlien will also be a member of the group management, as CFO.

Appropriation of profits

Proposed appropriation of profits, MSEK

Surplus brought forward	562
plus net profit for 2003	300
<hr/>	
The following funds are at the disposal of the Annual General Meeting	862
The Board of Directors and President propose	
Dividends of SEK 5.00 per share to shareholders	171
Carried forward to 2004	691
<hr/>	
	862
The group's unrestricted surplus amounts to	619
Allocated to restricted reserves	0

Höganäs, Sweden, 30 January 2004

Ulf G Lindén
Chairman

Per Molin
Vice Chairman

Magnus Lindstam

Bernd Magnusson

Hans Mivér

Jacob Palmstierna

Agnete Raaschou-Nielsen

Claes Lindqvist
President

Karl-Henry Boo

Sven Augustsson

Income Statement

MSEK	Note	Group		Parent company	
		2003	2002	2003	2002
Net sales	2	3 750	3 249	1 912	2 101
Cost of goods sold		-2 857	-2 292	-1 364	-1 388
Gross profit		893	957	548	713
Selling expenses		-202	-185	-94	-72
Administrative expenses		-162	-144	-74	-65
Research and development costs		-134	-133	-116	-121
Items affecting comparability	6	-	-25	-	-14
Other operating income		164	50	155	50
Other operating expenses		-10	-15	-1	-14
Operating income	2, 3, 4, 5, 7	549	505	418	477
Earnings on shares in group companies		-	-	10	22
Other interest income	8	29	33	149	145
Other interest expenses	9	-64	-81	-60	-72
Profit after financial items		514	457	517	572
Appropriations	10	-	-	-103	-95
Income tax	11	-159	-122	-114	-116
Minority share		-	-	-	-
NET INCOME		355	335	300	361
Earnings per share, SEK		10.40	9.70		
Average number of shares, 000s		34 217	34 467		
Proposed dividend per share, SEK		5.00	5.00		

Comments – Income Statement

GROUP

- ▶ Consolidated net sales grew by MSEK 501 to MSEK 3 750 in 2003.
 - The acquisition of SCM increased net sales by MSEK 656.
 - The Swedish krona's appreciation year to year equated to a net sales downturn of some 10 per cent. A less favourable geographical mix was offset by an improved product mix and largely unchanged prices in local currency terms.
 - Net sales by market increased by 54 per cent in America, by 5 per cent in Asia and 3 per cent in Europe. Net sales were unchanged for other markets (see [Note 2](#)).
 - Operating income in 2003 was MSEK 549 (505); although cost of materials did exert a significant negative profit impact, increased volumes and profits from the acquisition of SCM contributed to a profit increase on the previous year.
 - Other operating income and expenses: previous currency hedges meant that overall, the group reported a currency net of MSEK 154 (35) in exchange rate gains.
 - Financial income and expenses were MSEK -35 in the year, an MSEK 13 improvement on the previous year. Net indebtedness increased due to the SCM acquisition, but net interest income/expenses were better than 2002 due to lower interest rate levels and strong cash flows.
 - Income tax for the year was MSEK 159, which is MSEK 27 higher than the previous year, due to improved profits and a higher tax rate. The tax rate for the year was 30.9 per cent (26.7).
 - RR 9 Income Tax stipulates that the fiscal effect of items accounted directly to shareholders' equity must be accounted in the corresponding manner. The accounts in 2002 had MSEK 18 of tax on currency hedges on the shareholders' equity of foreign subsidiaries. The comparative figure for 2002 has been recalculated in this Annual Report, with the tax cost reducing by MSEK 18.
 - Income after tax was MSEK 355, a MSEK 20 improvement on 2002.
 - Earnings per share rose by SEK 0.70 in the year to SEK 10.40.
 - Return on equity was comparable with the previous year at 18.7 per cent (18.8). The year-end equity/assets ratio was 41.9 per cent, slightly lower than the 2002 figure of 43.5 per cent. Basically, robust cash flows restored the deteriorated equity/assets ratio subsequent to the acquisition of SCM.

PARENT COMPANY

- ▶ Net sales reduced by MSEK 189, although volumes increased somewhat. Slightly lower net sales are due to a stronger Swedish krona.
 - Operating income was MSEK 59 lower than 2002, mainly due to a significantly higher cost of materials.

Balance Sheet – Assets

		ASSETS				
		MSEK	Not	Group		Parent company
			2003	2002	2003	2002
FIXED ASSETS	▶ <i>Intangible fixed assets</i>					
	Licenses and rights	12	63	59	-	-
	Capitalised development expenditure	12	3	-	-	-
	Goodwill	12	184	111	-	-
	<i>Total intangible fixed assets</i>		250	170	-	-
	<i>Tangible fixed assets</i>					
	Buildings	13	652	556	298	259
	Land	13	105	88	38	38
	Land improvements	13	44	35	28	29
	Machinery and other technical facilities	13	1 703	1 741	835	829
	Equipment, tools and installations	13	132	116	73	60
	Construction in progress	13	83	124	67	58
	<i>Total tangible fixed assets</i>		2 719	2 660	1 339	1 273
	<i>Financial fixed assets</i>					
	Shares in group companies	14	-	-	841	702
Receivables from group companies	15	-	-	1 482	1 278	
Other long-term securities holdings		-	1	-	-	
Deferred tax receivables	11	52	70	-	-	
Other long-term receivables	16	34	12	23	3	
<i>Total financial fixed assets</i>		86	83	2 346	1 983	
Total fixed assets		3 055	2 913	3 685	3 256	
CURRENT ASSETS	▶ <i>Inventories</i>					
	Raw materials and supplies		286	229	188	155
	Work in progress		167	102	39	38
	Finished goods and trading stock		357	300	90	104
	<i>Total inventories</i>		810	631	317	297
	<i>Current receivables</i>					
	Customer receivables		653	468	212	163
	Receivables from group companies		-	-	165	174
	Tax receivables		6	8	-	-
	Other receivables		59	80	45	67
Prepaid expenses and accrued income	17	50	28	32	22	
<i>Total current receivables</i>		768	584	454	426	
<i>Cash and bank</i>		75	77	29	36	
Total current assets		1 653	1 292	800	759	
TOTAL ASSETS		4 708	4 205	4 485	4 015	

Balance Sheet – Liabilities and shareholders' equity

LIABILITIES AND SHAREHOLDERS' EQUITY						
MSEK	Note	Group		Parent company		
		2003	2002	2003	2002	
SHAREHOLDERS' EQUITY	▶ <i>Restricted equity</i>	18				
	Share capital		175	175	175	
	Restricted/statutory reserves		1 180	999	38	
	<i>Total restricted equity</i>		1 355	1 174	213	
	<i>Non-restricted equity</i>	18				
	Non-restricted reserves/ surplus brought forward		264	318	562	
	Net income		355	335	300	
	<i>Total non-restricted equity</i>		619	653	862	
	Total shareholders' equity		1 974	1 827	1 075	941
	Minority interests		1	2	-	-
Untaxed reserves	19	-	-	1 487	1 383	
PROVISIONS	▶ Provisions for pensions	20	43	25	6	
	Deferred tax liabilities	11	459	432	1	
	Other provisions	21	21	5	6	
	Total provisions		523	462	13	26
LONG-TERM LIABILITIES	▶ Liabilities to credit institutions	22, 24	1 683	1 409	1 655	
	Other liabilities		19	29	-	
	Total long-term liabilities		1 702	1 438	1 655	1 367
CURRENT LIABILITIES	▶ Advances from customers		2	1	1	
	Accounts payable		281	258	134	
	Liabilities to group companies		-	-	5	
	Tax liability		11	15	3	
	Other liabilities		35	34	9	
	Accrued expenses and prepaid income	23	179	168	103	
	Total current liabilities		508	476	255	298
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			4 708	4 205	4 485	4 015
Pledged assets	25	14	55	-	-	
Contingent liabilities	26	58	61	161	112	

Comments – Balance Sheet

GROUP

- ▶ Total assets grew by MSEK 503 in the year, primarily explained by the acquisition of SCM.
Consolidated net indebtedness was MSEK 1 651, which is only MSEK 294 higher than the previous year. The acquisition of SCM increased net debt by MSEK 560 temporarily, although healthy cash flows and exchange rate gains on foreign currency loans significantly reduced debt.
Average net indebtedness for the year was MSEK 1 504; average interest was 2.3 per cent (3.2).
Shareholders' equity grew by MSEK 147 in the year, to SEK 1 974 (1 827) at year-end.
Return on capital employed was 15.8 per cent (15.0).
The rate of capital turnover based on capital employed including goodwill was a multiple of 1.08 against 0.96 in the previous year.

PARENT COMPANY

- ▶ Liquid assets at year-end were MSEK 29; confirmed but un-utilised credit facilities were approximately MUS\$ 58 at the same time.
Investments in the year were MSEK 204 (148).

Statement of changes in shareholders' Equity

	MSEK	Share capital	Restricted reserves	Non-restricted Equity	Total
GROUP					
▶ <i>2002</i>					
Opening balance		175	964	605	1 744
Repurchase				-47	-47
Dividends				-155	-155
Transfer between restricted and non-restricted equity			69	-69	-
Items accounted directly to shareholders' equity				-18	-18
Translation differences in the year			-34	2	-32
Net income				335	335
Closing balance		175	999	653	1 827
<i>2003</i>					
Opening balance		175	999	653	1 827
Dividends				-171	-171
Transfer between restricted and non-restricted equity			197	-197	-
Items accounted directly to shareholders' equity				-19	-19
Translation differences in the year			-16	-2	-18
Net income				355	355
Closing balance		175	1 180	619	1 974
PARENT COMPANY					
▶ <i>2002</i>					
Opening balance		175	38	567	780
Repurchase				-47	-47
Group contributions received				3	3
Tax on group contributions received				-1	-1
Dividends				-155	-155
Net income				361	361
Closing balance		175	38	728	941
<i>2003</i>					
Opening balance		175	38	728	941
Group contributions received				7	7
Tax on group contributions received				-2	-2
Dividends				-171	-171
Net income				300	300
Closing balance		175	38	862	1 075

CHANGE IN NUMBER OF SHARES AND SHARE CAPITAL	Year	Event	Date	Change in number of shares	Total number of shares	Change in share capital	Total share capital
	1994				25 500 000		127.5
	1998	Bonus issue	15 May	12 750 000	38 250 000	63.8	191.3
	2001	Withdrawal	1 August	-3 151 068	35 098 932	-15.8	175.5

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

The nominal value per share is SEK 5.00.

At year-end 2003, Höganäs' held 881 900 of its own shares with a nominal value of SEK 4 409 500, with 589 600 of this total withheld for transfer pursuant to stock option plans.

- RESTRICTED RESERVES** ▶ Restricted reserves may not be reduced by dividends.
- STATUTORY RESERVES** ▶ The purpose of statutory reserves is to retain a portion of net income that is not used to cover deficits brought or carried forward.
- NON-RESTRICTED EQUITY** ▶ Earnings brought forward comprise the previous year's non-restricted equity after potential provisions to statutory reserves and after the payment of dividends. Alongside net income, earnings carried forward comprise non-restricted equity, i.e. the amount available for payment as dividends to shareholders. The proposed dividend for 2003 is SEK 5.00 per share.
- As of 1 January, accumulated translation differences were MSEK 22; translation differences in the year were MSEK -18, implying a closing balance of MSEK 4.

Comments – Statement of changes in shareholders' Equity

- THE GROUP** ▶ Consolidated shareholders' equity increased by MSEK 147 (83) in the year.
- Translation differences of MSEK -18 (-32) arose from adverse exchange rate changes of non-convertible currencies such as the Chinese RMB and Indian INR.
- Items accounted direct to shareholders' equity comprised MSEK 19 of tax on exchange rate gains from hedges of subsidiaries' shareholders' equity (18). A revaluation of pension liabilities pursuant to IAS 19 in 2004 is expected to exert a positive influence on shareholders' equity of approximately MSEK 20.

Cash Flow Statement

MSEK	Note	Group		Parent company	
		2003	2002	2003	2002
ONGOING ACTIVITIES					
▶ Operating income		549	505	418	477
Adjustments for items not included in cash flow					
Depreciation		279	234	137	127
Exchange rate differences		305	296	188	202
Other items		-65	24	-25	27
Net financial expenses paid	8, 9	-36	-48	102	97
Tax paid	II	-123	-125	-121	-103
<i>Cash flow before change in working capital</i>		<i>909</i>	<i>886</i>	<i>699</i>	<i>827</i>
Change in inventories		-44	23	-20	62
Change in current receivables		-121	-90	-32	-85
Change in current liabilities		8	13	-42	12
<i>Change in working capital</i>		<i>-157</i>	<i>-54</i>	<i>-94</i>	<i>-11</i>
Cash flow from ongoing activities		752	832	605	816
INVESTMENT ACTIVITIES					
▶ Acquisitions of subsidiaries	27	-563	-6	-139	-15
Lending to subsidiaries		-	-	-389	-144
Disposals		-	-	-	4
Net investments in fixed assets	13	-306	-314	-203	-148
Cash flow from investment activities		-869	-320	-731	-303
FINANCING ACTIVITIES					
▶ Change in long-term loans		292	-305	288	-293
Group subsidy		-	-	5	2
Repurchase of own shares		-	-47	-	-47
Dividends		-171	-155	-171	-155
Cash flow from financing activities		121	-507	122	-493
CASH FLOW FOR THE YEAR		4	5	-4	20
Liquid funds, opening balance		77	78	36	17
Exchange rate differences in liquid funds		-6	-6	-3	-1
Liquid funds, closing balance		75	77	29	36

Comments – Cash Flow Statement

GROUP

- ▶ Cash flow from ongoing activities for the year was MSEK 752 (832), including an MSEK 157 (54) increase to working capital.

Cash flow experienced a MSEK 305 (296) positive influence from exchange rate gains on loans and foreign currency hedging.

Investment activities including acquisitions were MSEK 869 (320); major investments in facilities in the year included the extension of Astaloy powder production in Sweden, and a new Brazilian production facility.

The utilisation of existing credit facilities increased by MSEK 292 in the year, and as a consequence, the net debt/equity ratio was 0.84 (0.74).

Cash flow from operating activities per share was SEK 22.00 (24.20).

PARENT COMPANY

- ▶ As for the group as a whole, the parent company was subject to significant exchange rate differences, which primarily relate to loans to subsidiaries.

Investments in subsidiaries were MSEK -139, primarily comprising a capital injection to North American Höganäs Holdings, Inc. coincident with the acquisition of SCM.

Because the parent company operates as the Treasury function for subsidiaries, the change in long-term loans is basically identical to the consolidated change in long-term loans.

General accounting principles

Höganäs' Annual Report has been prepared in accordance with the Swedish Annual Accounts Act, RR's (Redovisningsrådet, the Swedish Financial Accounting Standards Council) recommendations and Emerging Issues Task Force statements.

Accounting principles and classification

Assets, provisions and liabilities have been valued at cost unless stated otherwise below.

Essentially, fixed assets, long-term liabilities and provisions exclusively comprise those amounts expected to be recovered or paid after more than 12 months of the balance sheet date. Essentially, current assets and current liabilities exclusively comprise amounts expected to be recovered or paid within 12 months of the balance sheet date.

The Annual Report states amounts in millions of Swedish kronor (MSEK).

The company's financial year is 1 January–31 December.

New accounting principles

From 1 January 2003, Höganäs is observing the following new recommendations from Redovisningsrådet: RR 2:02 Inventories, RR 22 Presentation of Financial Statements, RR 25 Segment Reporting, RR 26 Events after the Balance Sheet Date and RR 27 Financial Instruments: Disclosure and Presentation and RR 28 Accounting for Government Grants and Disclosure of Government Assistance.

The adoption of these principles did not exert any material impact on the consolidated Income Statement and Balance Sheet, although has resulted in supplementary information in the notes.

Revised accounting principles 2004

From 1 January 2004 onwards, Höganäs will apply RR's recommendation RR 29 Employee Benefits, whose application will imply consolidated pension commitments being classified as defined-benefit or defined-contribution plans. Pension provisions pursuant to defined-benefit plans will be calculated as of 1 January 2004, which is expected to result in a reduction of pension provisions of approximately MSEK 20, and a commensurable increase in the opening balance of consolidated shareholders' equity.

Consolidated financial statements

The consolidated accounts encompass Höganäs AB and all companies in which the parent company owns more than 50 per cent of the vote directly or indirectly, or exerts a controlling influence through any other formalised agreement.

The consolidated financial statements are prepared according to acquisition accounting, implying that the parent company indirectly acquires subsidiary assets and takes over its liabilities, valued at actual value. The difference between the acquisition cost of equities and the market value of acquired identifiable net assets constitutes goodwill or negative goodwill.

Subsidiaries acquired in the year are included in the consolidated financial statements from their acquisition date onwards. Divested companies are included until the date of their divestiture.

Conversion of foreign subsidiaries

The group's foreign subsidiaries are classified as autonomous foreign operations, converted by applying the current method, which implies that all assets and liabilities are converted at the exchange rate on the balance sheet date and that all Income Statement items are converted at average exchange rates. Any exchange rate differences arising are posted directly to shareholders' equity. Coincident with the divestiture of autonomous foreign operations, the accumulated translation differences less deductions for potential hedging are realised in the Consolidated Income Statement.

Currency conversions to SEK are effected on the basis of individual subsidiaries' functional currencies. Some foreign subsidiaries' functional currencies differ from their local currencies, and for these companies, local currency transactions are accounted as foreign currency transactions.

Elimination of intra-group transactions

Deliveries between group companies are pursuant to business principles. Intra-group profits arising from sales between group companies are eliminated in the consolidated financial statements in their entirety.

Acquisitions in the period

As of 1 January, all the shares of SCM Metal Products, Inc., which manufactures nickel and copper-based products, were acquired. The purchase price was MUSD 65 and is accounted in the High Alloy division exclusively.

Consolidated sales grew by MSEK 656 due to the acquisition, and at year-end 2003, total assets had increased by MSEK 503.

Restructuring reserve

An MSEK 15 restructuring provision was created coincident with the acquisition of SCM, based on a concrete rationalisation package intended to modify this company's operations to the group as a whole. As at year-end, the provision had not been utilised.

Segment reporting

The group's operations are controlled and reported firstly by division and secondly by geographical region. Segments are consolidated according to the same principles as the group.

Intra-group sales are on market terms.

Höganäs is divided between the Iron Powder and High-alloy Metal Powder business areas. High-alloy metal powder iron content may not exceed 90 per cent. Divisions are profit centres at the operating income level. All indirect costs are divided in terms of how production and operational resources are utilised between the business areas.

Geographical division proceeds from the key markets of Europe, Asia, America and other markets. Net turnover is based on the location of customers and assets.

Sales revenues

Revenue recognition occurs in the Income Statement when the company is likely to experience the future financial benefits and these benefits can be reliably calculated.

Revenues exclusively comprise the gross inflows of financial benefits the company receives, or may receive, on its own account. Revenue from goods sales are recognised when the company transfers the essential risks and benefits associated with ownership of such goods in ongoing operations to the buyer, or a third party.

Revenues are accounted as the actual values received, or that will be received, less discounting.

Profits and losses on forwards contracts entered for hedging purposes are posted to profits with the transactions to which the hedging applies.

Other operating income and operating expenses

All operating exchange rate gains and losses exclude the exchange rate effects related to financial transactions. This also includes gains and losses arising from, for example, divestitures of properties and business segments.

Net financial income and expenses

Net financial income and expenses comprises interest on liabilities including pension provisions, and dividend income, interest income on receivables, exchange rate gains/losses on financial receivables and financial liabilities plus the interest component of currency hedging instruments. Interest income on receivables and interest costs on liabilities are calculated using effective interest.

Dividend revenues are accounted when dividends are resolved and the right to receive payment is considered secure. Transaction costs for loans raised are allocated over the term of such loans.

Costs of borrowing burden profit in the period to which they are attributable.

Write-downs

The accounted values of consolidated assets are monitored at every balance sheet date to discern any need for write-downs. If there is such indication, the group's recovery value is calculated at the greater of utility value and net sales value. Write-downs are effected if the recovery value is less than the

accounted value; when calculating utility values, future cash flows are discounted at an interest rate before tax that considers market estimates of risk-free interest and the risk associated with the specific asset.

A write-down is reversed if the calculations used to determine recovery values are subject to alteration. Reversals are only effected to the extent that asset book values do not exceed the book value, which would have been accounted less depreciation, if no write-down had been made.

Goodwill write-downs are only reversed if such write-downs were due to a specific exceptional external event not expected to recur, and the increase of recovery values is directly attributable to a negation of the effect of the specific event.

Receivables

Receivables are accounted net of write-downs, reflecting the amount at which they are expected to be received. Provisions are based on a case-by-case assessment considering expected customer losses.

Foreign currency receivables and liabilities

The group's foreign currency receivables and liabilities are valued at exchange rates on the balance sheet date; and in those cases where currency hedging has been effected, such hedges are valued at the forward price (adjusted for forward premiums).

Exchange rate differences on operating receivables and liabilities are included in operating income, while exchange rate differences on financial receivables and liabilities are accounted as financial income and expenses. In those cases where currency hedging relates to expected future flows, valuations of these contracts has not influenced the accounting. Parent company receivables and liabilities are valued including loans and forwards contracts, at the exchange rate on the balance sheet date, implying that all exchange rate differences are posted to net income. For the group, exchange rate differences from those loans and forwards contracts the parent company has entered for hedging net investments in autonomous foreign businesses are directly deducted from translation differences under shareholders' equity.

Intangible assets

Capitalised development

Expenditure for development, where research results or other know-how is applied to achieve new or enhanced products or processes, is accounted as an asset in the Balance Sheet, if such products or processes are technically and commercially viable, and the company has sufficient resources to complete their development, and subsequently use or sell the intangible asset. The accounted value includes expenditure for materials, direct expenditure for salaries and indirect expenditure attributable to the asset in a reasonable and consistent manner. Other expenditure for development is accounted in the Income Statement as a cost as it arises. Development costs arising in the Balance Sheet are posted at cost less accumulated depreciation and write-downs.

A high proportion of Högånäs' development costs are customer specific, implying that expenditure is accounted as a cost as it arises. Development projects are capitalised in those cases where they are likely to cause future financial benefits.

A high proportion of Högånäs' development costs relate to projects performed on behalf of customers.

The depreciation of capitalised development costs is linear over the estimated utilisation period from the time the asset can be utilised onwards. Depreciation terms do not exceed to years.

In the parent company, all expenditure for development is accounted as a cost in the Income Statement.

Goodwill

Consolidated goodwill arises when the acquisition value of shares in subsidiaries exceeds the actual value of the acquired enterprise's identifiable net assets. Goodwill is accounted at acquisition value less accumulated depreciation and potential write-downs.

Consolidated profit has been reduced by depreciation of these assets; goodwill arising from corporate acquisitions is depreciated at annual rates of 5 or 10 per cent.

Goodwill amortisation over 20 years is applied for long-term strategic acquisitions of productive enterprises within the group's core business.

Additional expenditure for intangible assets is only added to acquisition values if such expenditure enhances the future financial benefits that exceed the original assessment and expenditure can be calculated reliably. All other expenditure, such as expenditure for internally generated goodwill and brands, is written off as it arises.

The planned depreciation period for intangible assets varies between 5 and 8 years.

Tangible fixed assets

Tangible fixed assets are accounted at acquisition value less accumulated depreciation and write-downs. Repair and maintenance is written off on an ongoing basis. Additional expenditure is capitalised only if it generates financial benefits that exceed the original performance of the asset.

Depreciation according to plan is calculated on the acquisition value of assets less the calculated residual value. Depreciation is linear over expected useful life, which varies between asset classes:

3–5 years for equipment

5–15 years for machinery and other technical facilities

Up to 33 years for buildings

Leasing contracts

The group's leasing contracts are classified as operational or financial leasing. A financial leasing contract is a leasing contract where essentially, the risks and benefits of ownership are transferred from the lessor to the lessee. All other leasing agreements are operational.

Because the amounts relating to outstanding leasing contracts are not considered significant, no information on them has been provided. The group has no rented premises.

Inventories

Inventories have been valued at the lower of cost (on a FIFO basis) and net sales value; inventories include the associated portion of indirect costs. An insignificant portion of inventories have been valued at net realisable value. The requisite provisions for obsolescence have been made.

The acquisition value of finished and semi-finished goods comprises direct manufacturing costs and a reasonable proportion of indirect manufacturing costs. Consideration is given to normal capacity utilisation coincident with valuations.

Group and shareholders' contributions

Shareholders' contributions are posted directly to the recipient's shareholders' equity and are capitalised in the shares and participations of the source, to the extent that the need for write-downs arises. Group contributions are accounted according to their financial implications, meaning that group contributions made with the intention of minimising consolidated total tax are accounted directly to the surplus brought forward less deductions for the current tax effect.

Provisions

Provisions are accounted in the Balance Sheet when the company has a formal or informal commitment due to an event that has occurred and it is likely that the outflow of resources necessary to satisfy the commitment can be estimated reliably.

Present value calculations are performed to reflect the timing effects of significant future payments.

Employee benefits, pensions

The group has both defined-benefit and defined-contribution pension plans. Defined-contribution pension plans imply the company being committed to pay a fee for each period and that the company has no further commitment for the period after paying this fee. Defined-benefit pension plans imply that a predetermined pension is payable in terms of salary at retirement and number of years within such scheme. Pensions are safeguarded through pension funds, provisions and premium payments. Pension commitments are calculated pursuant to the ordinances applicable in each country. Conditional pension commitments are accounted under contingent liabilities. Pension costs are posted to operating income while the interest on asset values is posted to financial expenses.

Tax

For income tax, total tax comprises current and deferred tax. Taxes are accounted in the Income Statement apart from when the underlying transactions are accounted directly to shareholders' equity, whereupon the associated tax effect is accounted to shareholders' equity. Current tax is tax to be paid or received for the relevant year, and this also applies to adjustments of current tax attributable to previous periods. Deferred tax is calculated pursuant to the balance sheet method, proceeding from temporary differences between accounted and taxable values of assets and liabilities. Amounts are calculated on the basis of how the temporary differences are expected to even out, and by applying the tax rates and ordinances adopted or announced on the balance sheet date. Temporary differences are not considered in consolidated goodwill, nor normally, in differences attributable to shares in subsidiaries and associated companies not expected to be taxed within the foreseeable future. Untaxed reserves including deferred tax liabilities are accounted in legal entities, however in the consolidated financial statements, untaxed reserves are divided between deferred tax liabilities and shareholders' equity.

Deferred tax receivables for deductible temporary differences and loss carry-forwards are only accounted to the extent that it is likely that such receivables will generate lower tax payments in the future.

The parent company accounts depreciation in addition to plan as appropriations. The parent company has utilised its provisions to tax allocation reserves, which is permitted at 25 per cent of estimated taxable income before the provisions for the year. The provision for 2003 will be reversed to taxation for 2009.

Interest-bearing loans

Interest-bearing loans are accounted at their cumulative acquisition value less deductions for associated transaction costs.

Accounting for Government Grants and Disclosure of Government Assistance

From time to time, the group receives government grants and assistance relating to investments and projects that are carried as expenses, as for proj-

ects that are written off on an ongoing basis. All such support is accounted in the Income Statement and Balance Sheet when it is possible to conclude reasonably that the terms and conditions for such support will be satisfied, and that such support will be received.

The grants reduce acquisition values coincident with investments, and are spread over the term of projects as the related costs arise.

Transactions with related parties

The group

The group is under the controlling influence of Höganäs AB.

No significant transactions between the reporting company, and companies or natural persons closely related with them occurred in the year.

Business terms and pricing apply to intra-group sales of services and products. Intra-group sales amounted to MSEK 1 162 (1 228).

Parent company

Apart from the close relations stated for the group, the parent company has close relations that encompass a controlling influence on its subsidiaries, as detailed in [note 14](#).

Director of Höganäs AB Ulf G Lindén and Magnus Lindstam and family control 38.3 per cent of the votes of Höganäs AB.

As for salaries and other remuneration, costs and commitments for pensions and other benefits, numbers for severance pay, and loans to Directors and the President, see [note 5](#).

Events after the end of the year

Consistent with its strategy of concentrating resources and efforts on established core business, Höganäs has resolved to initiate discussions with interested parties regarding the divestiture of SCM's copper products facility.

Financial reports

The accounts were signed by the Board of Directors on 30 January; the Income Statement and Balance Sheet will be submitted to the Annual General Meeting of 6 May.

NOTE 2 SEGMENT REPORTING AND GEOGRAPHICAL REGION

The group

Accounting by business area (primary segments)

MSEK	Iron Powder		High Alloy		Elimination		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Income								
External sales	2 579	2 706	1 171	543				
Intra-group sales	8	6	20	4	-28	-10		
Total income	2 587	2 712	1 191	547	-28	-10	3 750	3 249
Earnings								
Earnings by segment	409	460	140	45			549	505
Interest expenses							-64	-81
Interest income							29	33
Tax for the year							-159	-122
Net income							355	335
Other information								
Assets	3 542	3 621	1 114	514			4 656	4 135
Non-distributed assets							52	70
Total assets							4 708	4 205
Liabilities	422	568	160	71			582	639
Non-distributed liabilities							2 151	1 737
Total liabilities							2 733	2 376
Investments	283	265	280	63			563	328
Depreciation	230	211	49	23			279	234

Accounting by geographical region (secondary segments)

	External sales by market		Assets by market		Investments by market		Parent company Sales by market	
	2003	2002	2003	2002	2003	2002	2003	2002
Europe	1 411	1 366	2 586	2 434	231	219	1 027	1 071
Asia	1 145	1 094	433	432	7	2	703	788
America	1 155	749	1 637	1 269	325	107	150	207
Other	39	40					32	35
Total	3 750	3 249	4 656	4 135	563	328	1 912	2 101

NOTE 3 INTRA-GROUP TRANSACTIONS

Intra-group deliveries are priced according to business principles.

Parent company sales to group companies amounted to MSEK 826 (946), which comprised 43 per cent (45) of total net sales. While parent company procurement from group companies was MSEK 45 (25).

NOTE 4 EMPLOYEES

	2003		2002	
	Ave. no. of employees	Of which men, %	Ave. no. of employees	Of which men, %
<i>Parent company in Sweden</i>	755	84	743	84
<i>Subsidiaries</i>				
Sweden	36	94	42	93
Belgium	159	93	140	91
Brazil	122	89	140	89
France	4	25	4	25
India	74	91	71	93
Italy	5	40	5	40
Japan	24	79	24	79
China	32	91	31	90
Korea	4	50	4	50
Spain	4	25	4	25
UK	36	86	36	86
Taiwan	7	71	7	71
Germany	8	38	8	38
USA	379	91	167	92
<i>Total, subsidiaries</i>	<i>894</i>	<i>89</i>	<i>683</i>	<i>88</i>
Group total	1 649	87	1 426	86

Sickness absence, Swedish companies, second half-year 2003

Total sickness absence*	4.5%
– Long-term sickness absence**	57.0%
Sickness absence, men	4.2%
Sickness absence, women	5.8%
Employees up to 29 yrs.	3.1%
Employees 30–49 yrs.	4.6%
Employees 50 yrs. and over	5.2%

* As a share of ordinary working-hours.

** Absence for an aggregate period of at least 60 days.

NOTE 5 SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS TO EMPLOYEES, BOARD AND AUDITORS

	2003		2002	
	Salaries & other remun- eration	Social sec. (of which pens. costs)	Salaries & other remun- eration	Social sec. (of which pens. costs)
MSEK				
Parent company	236	111 (29)*	223	106 (29)*
Subsidiaries	280	109 (15)	205	82 (15)
Group total	516	220 (44)**	428	188 (44)**

* Of parent company pension costs, MSEK 0.8 (0.7) relates to the President only.

** Of consolidated pension costs, MSEK 2.3 (3.2) apply to CEOs only and MSEK 2.1 (1.9) to other senior executives.

Remuneration to senior executives

Remuneration to the President and other senior executives amounted to MSEK 11.2 (11.1) in 2003, which includes salary, bonus and benefits.

Remuneration to the President amounted to a total of MSEK 3.3 (3.0), of which MSEK 0.1 was bonuses. The President has a bonus of 0.5 per cent of consolidated income before tax in excess of MSEK 500, but subject to a maximum of 60 per cent of basic salary.

The number of women in the group management is, and has been, zero.

All the CEOs of subsidiaries are men.

Directors' fees were MSEK 1.2 (1.1) for 2003, of which MSEK 0.3 (0.3) to the Chairman of the Board. Additionally, two Board members received a total of MSEK 0.1 (0.1) in remuneration for work on the Currency Committee. The number of women on the Board was 1.

Pension agreements

The President may, or if the company so demands, retire at 55, with a pension of 26 per cent of fixed salary, at age 56 with 31 per cent, at 57 with 37 per cent, at 58 with 45 per cent, at 59 with 55 per cent, at 60 with 70 per cent of fixed salary until age 65.

Höganäs' pension agreements with senior executives for pensions from 65 onwards are contribution based, which means that Höganäs does not guarantee its senior executives any defined pension levels, but rather, future pensions are exclusively subject to the earnings capacity of the pension fund manager.

Severance pay

Coincident with termination initiated by the company, eleven senior executives including the President possess the right to severance pay of one to two years' salary including pension benefits. No severance pay is due coincident with termination initiated by the employee.

Option plans

The option plan encompasses 589 600 options and has a term of five years, expiring on 31 May 2005 with a premium of SEK 20.60 and an exercise price of SEK 185. The options could be redeemed for shares from June 2001 onwards. No options had been redeemed as of year-end.

From 2001 onwards, the Board of Directors resolved to introduce a profit-share scheme for all Höganäs employees in Sweden. No profit-share will be considered for the financial year 2003.

Holdings of financial instruments

	No. of shares	No. of options
The President	80 800	30 000
Other senior executives	19 500	60 000

Salaries and other remuneration by country and between Directors, etc. and employees

MSEK	2003		2002	
	Board of Directors and President	Other employees	Board of Directors and President	Other employees
<i>Parent company in Sweden</i>	5	231	4	219
<i>Subsidiaries</i>				
Sweden	-	9	1	8
Belgium	2	42	2	35
Brazil	1	9	2	8
France	-	2	-	2
India	-	4	-	4
Italy	-	2	-	2
Japan	3	15	4	8
China	-	2	-	2
Korea	-	1	-	2
Spain	1	1	1	1
UK	-	13	-	13
Taiwan	2	3	2	3
Germany	3	4	2	4
USA	2	159	3	96
<i>Total, subsidiaries</i>	14	266	17	188
Group total	19	497	21	407

Auditing fees

Fees and reimbursement of expenses, MSEK	Group	Parent company
KPMG – Audit assignments	2.6	0.7
– Other assignments	-	-
Frejs Revisionsbyrå – Audit assignments	0.2	0.2
Ernst&Young – Other assignments	0.5	-
Other auditors – Audit assignments	0.2	-
Total	3.5	0.9

Audit assignments means reviews of annual reports and accounts and the Board of Directors' and President's management, other tasks appropriate for the company's auditors to perform and advisory services or other assistance resulting from observations of such reviews or the implementation of other similar tasks. Anything else is classified as other assignments.

NOTE 6 ITEMS AFFECTING COMPARABILITY

MSEK	Group		Parent company	
	2003	2002	2003	2002
Provisions to pension funds	-	-25	-	-24
Sales gas-atomised to Höganäs Belgium	-	-	-	10
Total	-	-25	-	-14

NOTE 7 DEPRECIATION BY FUNCTION

MSEK	Group		Parent company	
	2003	2002	2003	2002
Cost of goods sold	256	209	125	113
Selling expenses	7	8	2	2
Administrative expenses	11	10	6	6
Research and development costs	5	7	4	6
Total	279	234	137	127

NOTE 8 OTHER INTEREST INCOME AND SIMILAR INCOME STATEMENT ITEMS

MSEK	Group		Parent company	
	2003	2002	2003	2002
Interest	28	33	83	88
Exchange rate differences	1	-	66	57
Total	29	33	149	145

Income from group companies amounted to MSEK 58 (58). In 2003, interest received was MSEK 29 for the group and MSEK 87 for the parent company.

NOTE 9 INTEREST EXPENSES AND SIMILAR INCOME STATEMENT ITEMS

MSEK	Group		Parent company	
	2003	2002	2003	2002
Interest	64	75	60	72
Exchange rate differences	-	6	-	-
Total	64	81	60	72

Expenses to group companies were MSEK 0 (0).

In 2003, interest paid was MSEK 65 for the group and MSEK 61 for the parent company.

NOTE 10 APPROPRIATIONS

MSEK	Parent company	
	2003	2002
Change in tax allocation reserve	-67	-52
Depreciation in excess of plan	-36	-43
Total	-103	-95

NOTE 11 TAX

Components of tax for the period

MSEK	Group		Parent company	
	2003	2002	2003	2002
Tax paid	123	125	121	103
Change in tax receivables and tax liability	-1	13	1	13
<i>Current tax</i>	<i>122</i>	<i>138</i>	<i>122</i>	<i>116</i>
Deferred tax related to temporary differences	37	-16	-8	-
Reported tax	159	122	114	116

Temporary differences arise in those cases where the accounted values of assets or liabilities and taxable values differ. Temporary differences and un-utilised tax loss carry-forwards have resulted in deferred tax liabilities and tax receivables for the following items:

Deferred tax liability

MSEK	Group		Parent company	
	2003	2002	2003	2002
Taxable excess depreciation of fixed assets	243	234	-	-
Tax allocation reserve	210	191	-	-
Intra-group profit on inventories	-11	-15	-	-
Un-realised exchange rate difference	1	9	1	-
Capital gain, intra-group share sales	-	-	-	9
Other temporary differences	16	13	-	-
Reported deferred tax liability	459	432	1	9

Deferred tax receivables

MSEK	Group		Parent company	
	2003	2002	2003	2002
Un-utilised loss carry-forward USA	54	69	-	-
Other temporary differences	-2	1	-	-
Reported deferred tax receivable	52	70	-	-

Deferred tax receivables are accounted for un-utilised loss carry-forwards to the extent that they are likely to be able to be utilised within the foreseeable future. All the group's loss carry-forwards can be utilised indefinitely.

The group's non-accounted un-utilised tax loss carry-forwards amount to MSEK 2 (16).

Reconciliation of effective tax

MSEK	Group		Parent company	
	2003	2002	2003	2002
Income before tax	514	457	414	477
Theoretical estimated tax	-180	-162	-116	-133
Non-deductible costs	4	3	-1	-1
Non-deductible goodwill amortisation	4	4	-	-
Non-taxable income	-	-	3	18
Adjusted tax rate	-14	-1	-	-
Adjustment of deferred tax	8	16	-	-
Tax accounted directly to shareholders' equity	19	18	-	-
Accounted effective tax	-159	-122	-114	-116

NOTE 12 INTANGIBLE FIXED ASSETS

MSEK	Group			Parent company		
	Licenses	Goodwill	Capitalised development costs	Licenses	Goodwill	Capitalised development costs
Acquisition value, opening balance	99	156	-	14	-	-
Purchases	23	104	3	-	-	-
Sales/disposals	-4	-	-	-	-	-
Exchange rate differences	-10	-19	-	-	-	-
Cumulative acquisition value, closing balance	108	241	3	14	-	-
Depreciation, opening balance	40	45	-	14	-	-
Depreciation in the year	8	21	-	-	-	-
Exchange rate differences	-3	-9	-	-	-	-
Cumulative depreciation, closing balance	45	57	-	14	-	-
Residual value according to plan, closing balance	63	184	3	0	-	-

Goodwill

	Year	Acquisition value, MSEK	Depreciation period
Acquisition Brazil	1999	75	10 yr.
Acquisition USA	2000	23	10 yr.
	2003	103	20 yr.
Acquisition Belgium	2001	4	10 yr.
Acquisition India	2001/2003	36	10 yr.

NOTE 13 TANGIBLE FIXED ASSETS

MSEK	Buildings	Land	Land im- provements	Machinery	Equipment	Constr. in progress	Total
Group							
Acquisition value, opening balance	774	58	59	2 780	294	124	4 089
Purchases	78	24	11	205	45	129	492
Transfers	39	-	1	127	-	-167	-
Sales/disposals	-	-	-	-11	-7	-	-18
Reclassification	47	-	-	-50	3	-	-
Exchange rate differences	-50	-7	-1	-162	-11	-3	-234
<i>Cumulative acquisition value, closing balance</i>	<i>888</i>	<i>75</i>	<i>70</i>	<i>2 889</i>	<i>324</i>	<i>83</i>	<i>4 329</i>
Depreciation, opening balance	218	-	24	1 038	178	-	1 458
Sales/disposals	-	-	-	-10	-7	-	-17
Depreciation in the year	26	-	3	193	28	-	250
Exchange rate differences	-7	-	-1	-35	-7	-	-50
<i>Cumulative depreciation, closing balance</i>	<i>237</i>	<i>-</i>	<i>26</i>	<i>1 186</i>	<i>192</i>	<i>-</i>	<i>1 641</i>
Write-ups, opening balance	1	30	-	-	-	-	31
Cumulative write-ups, closing balance, net	1	30	-	-	-	-	31
Residual value according to plan, closing balance	652	105	44	1 703	132	83	2 719
Parent company							
Acquisition value, opening balance	415	8	43	1 608	175	58	2 307
Purchases	46	-	1	64	28	65	204
Transfers	5	-	-	51	-	-56	-
Sales/disposals	-	-	-	-10	-3	-	-13
<i>Cumulative acquisition value, closing balance</i>	<i>466</i>	<i>8</i>	<i>44</i>	<i>1 713</i>	<i>200</i>	<i>67</i>	<i>2 498</i>
Depreciation, opening balance	157	-	14	779	115	-	1 065
Sales/disposals	-	-	-	-9	-3	-	-12
Depreciation in the year	12	-	2	108	15	-	137
<i>Cumulative depreciation, closing balance</i>	<i>169</i>	<i>-</i>	<i>16</i>	<i>878</i>	<i>127</i>	<i>-</i>	<i>1 190</i>
Opening balance, write-ups	1	30	-	-	-	-	31
Cumulative write-ups closing balance, net	1	30	-	-	-	-	31
Residual value according to plan, closing balance	298	38	28	835	73	67	1 339
Book value, properties	174	38					212
Taxable values, properties	297	51					348

NOTE 14 SHARES IN GROUP COMPANIES

	Corp. ID no.	Registered office	No. of shares	Equity holding, %	Book value, MSEK
Swedish subsidiaries					
Höganäs Hamnbyggnads AB	556000-8301	Höganäs	4 240	94	1
AB Micanäs	556204-9691	Höganäs	24 000	100	2
Höganäs Saltglaserat AB	556054-5922	Höganäs	1 000	100	-
Höganäs Verkstads AB	556215-8682	Höganäs	40 000	100	5
Höganäs HOGAP AB	556324-0760	Höganäs	1 100	100	3
Foreign subsidiaries					
Höganäs Belgium S.A.		Ath	20 000	100	53
-Höganäs (GB) Ltd					
Höganäs Japan K.K.		Tokyo	6 000	100	15
Höganäs France S.A.		Villefranche	700	100	2
Höganäs GmbH		Düsseldorf	100	100	-
Höganäs Italia S.r.l.		Rapallo	60 000	100	-
Höganäs India Ltd		Pune	5 304 242	97	74
Höganäs Iberica S.A.		Madrid	4 000	100	-
Höganäs Taiwan Ltd		Taipei	5 000	100	1
Höganäs Korea Ltd		Seoul	40 000	100	2
Höganäs (China) Ltd		Shanghai		100	137
North American Höganäs Holdings, Inc.		Hollsopple	1 000	100	457
-North American Höganäs, Inc.		Hollsopple			
-NAH Financial Services, Inc.		Wilmington			
-SCM Metal Products, Inc.		Research Triangle Park			
Höganäs Brasil Ltda		Jacarei	18 170 000	100	89
Total					841

Equity holdings are consistent with voting power.

The following changes occurred in the year; an MSEK 136 capital injection was made to North American Höganäs Holdings, Inc. and a further 3 per cent of Höganäs India Ltd. was acquired for MSEK 3.

NOTE 15 RECEIVABLES FROM GROUP COMPANIES

MSEK	Parent company	
	2003	2002
Opening balance	1 278	1 335
Additional receivables	409	169
Settled receivables	-20	-25
Exchange rate differences	-185	-201
Total	1 482	1 278

NOTE 17 PREPAID EXPENSES AND ACCRUED INCOME

MSEK	Group		Parent company	
	2003	2002	2003	2002
Revaluation, receivables and liabilities	18	6	18	6
Prepaid interest expense	2	1	2	1
Option premiums	10	6	10	6
Insurance compensation	1	1	1	1
Other items	19	14	1	8
Total	50	28	32	22

NOTE 16 OTHER LONG-TERM RECEIVABLES

MSEK	Group		Parent company	
	2003	2002	2003	2002
Opening balance	12	25	3	18
Additional receivables	26	4	23	-
Settled receivables	-3	-16	-3	-15
Exchange rate differences	-1	-1	-	-
Total	34	12	23	3

NOTE 18 CHANGES IN SHAREHOLDERS' EQUITY

For information on transactions with Shareholders and other changes to Shareholders' equity, See "Statement of changes in Shareholders' Equity" on page 45.

NOTE 19 UNTAXED RESERVES

MSEK	Parent company	
	2003	2002
Tax allocation reserve tax 98	-	79
Tax allocation reserve tax 99	81	81
Tax allocation reserve tax 00	100	100
Tax allocation reserve tax 01	200	200
Tax allocation reserve tax 02	82	82
Tax allocation reserve tax 03	140	140
Tax allocation reserve tax 04	147	-
Cumulative depreciation in excess of plan	737	701
Total	1 487	1 383

NOTE 20 PENSION PROVISIONS

MSEK	Group		Parent company	
	2003	2002	2003	2002
Opening balance	25	12	13	-
Additional commitments	26	14	-	13
Settled commitments	-7	-	-7	-
Exchange rate differences	-1	-1	-	-
Closing balance	43	25	6	13
Of which FPG/PRI pensions	8	15	5	12

NOTE 21 OTHER PROVISIONS

MSEK	Group		Parent company	
	2003	2002	2003	2002
Restructuring, SCM	15	-	-	-
Reinstatement, Bohus*	4	5	4	4
Damming**	2	-	2	-
Total	21	5	6	4

* Reinstatement Bohus relates to the decontamination of land after a factory shut-down.

** Damming relates to the reinstatement of landfill.

NOTE 22 LONG-TERM INTEREST-BEARING LIABILITIES

MSEK	2003		2002	
<i>Liabilities, parent company</i>				
SEK	178	874		
EUR	323	271		
JPY	137	117		
GBP	96	105		
USD	921	-		
Total	1 655	1 367		
<i>Liabilities, foreign subsidiaries</i>				
EUR	10	7		
CNY	-	10		
TWD	6	11		
USD	12	14		
Total	28	42		
Total group	1 683	1 409		

See note 24 on maturities

NOTE 23 ACCRUED EXPENSES AND DEFERRED INCOMES

MSEK	Group		Parent company	
	2003	2002	2003	2002
Vacation pay liability	34	33	30	29
Social security expenses	24	27	23	26
Bonuses to customers	22	32	18	20
Invoices not received	36	40	25	31
Other items	63	36	7	11
Total	179	168	103	117

NOTE 24 FINANCIAL INSTRUMENTS AND OTHER RISK MANAGEMENT

Höganäs' Financial Policy, controlled and monitored by Höganäs' Board of Directors, stipulates the framework for how funding and various types of financial risk are managed. The Policy defines the risk exposure with which business operations will be managed. The primary focus is to pursue a low risk profile.

Financing activities are centralised on Höganäs AB's finance function, an entity that is accountable for the group's financial risks and operates as the group treasury. Moreover, currency/interest rates and metal derivatives are utilised, subject to mandates from the Board of Directors, Currency Committee and Group Management.

Höganäs accounts in Swedish kronor (SEK). Considering that Höganäs has a significant portion of its capital employed denominated in foreign currencies, funding is principally raised in these currencies, or various derivatives are used to achieve 100 per cent hedging of the assets denominated in convertible currencies. Moreover, interest swaps are used to control the interest fixing periods of net borrowings.

Financial risk management
Currency risk – Income Statement

The objective of Höganäs' currency hedging policy is to hedge a tailored portion of the group's currency inflows in the short and medium term. Höganäs has large, predictable inflows in three strategic currencies: EUR, JPY and USD. The purpose of hedging currency flows is to even out income fluctuations, facilitate budgeting, and hopefully, improve income.

The currency hedging policy confers the group management with a mandate to hedge strategic currencies for four years in the future. A target level (that also considers currency flows) for forwards based on total currency flows applies to each currency in the first year.

In 2004 these expected targets are:

Currency	Inflow	Target
USD	70 MUSD	32%
EUR	110 MEUR	65%
JPY	4 800 MJPY	80%

As at year-end, the actual value of total currency derivatives was MSEK 396, of which MSEK 190 is expected to arise in 2004.

This information is based on year-end rates as of 31 December 2003.

For subsequent years' hedging, the target level reduces proportionately, so that year 4 is 25 per cent of the level in the first year.

Höganäs also has a Currency Committee, which has a mandate to hedge approximately 110 per cent of the first year's target level using forwards or currency options, throughout the four-year period.

At year-end, Höganäs' currency derivatives portfolio for transaction flows was as follows:

Currency	2004	2005	2006	2007
EUR	65%	55%	45%	15%
JPY	75%	70%	60%	15%
USD	35%	35%	20%	5%

Currency risk - Balance Sheet

This risk is defined as the exposure of foreign investments to exchange rate fluctuations, which gives rise to translation differences in the Consolidated Balance Sheet and influences consolidated shareholders' equity. Höganäs has significantly increased its conversion exposure through procurement and fixed assets in recent years.

Höganäs' policy is to protect subsidiaries' shareholders' equity in convertible currencies, and to protect the parent company's long-term lending to subsidiaries.

The following table illustrates those balances hedged at year-end:

Currency, MSEK	31 Dec. '03	31 Dec. '02
USD	1 425	1 178
EUR	323	271
JPY	137	149
GBP	96	105
Total	1 981	1 703

Metals risk

Höganäs purchases the majority of the nickel and copper it needs on contract from suppliers. Höganäs enters these agreements to cover its needs for raw materials for sale or its own consumption, and this need remains until the raw material is delivered. For the procurement where these metals are alloying materials, Höganäs has a metals hedging policy. The hedges comprise deliverables and are not financial instruments. The Metals Hedging Policy guarantees up to 80 per cent of forecast volumes over the forthcoming four-year period. At year-end 2003, the following volumes were hedged for other procurement, in percentage terms:

	2004	2005	2006	2007
Nickel	80%	60%	5%	0%
Copper	80%	50%	35%	5%

Interest risk

Interest risk is the exposure the group is exposed to when interest rates change. Höganäs' policy is for funding within the value of current assets to be at floating rate (maximum fixing period: 12 months). Any additional funding need should be financed with fixed interest rates, corresponding to maturities from one to five years depending on expected group cash flows. A one percentage point change in Höganäs' average interest, based on the loan volumes prevailing at year-end, would exert an influence of approximately MSEK 17 extent on financial income and expenses.

At 31 December 2003, Höganäs had interest-bearing loans of MSEK 1 683, with an average interest fixing period of approximately 0.8 years, including derivatives.

Finance risk

This risk is defined as limitations to the group to secure funding. Höganäs' policy is that its need for capital, expressed as capital employed, should be funded on a long-term basis through shareholders' equity and confirmed credits. In addition, further credit facilities should be available on an ongoing basis, to cover the planned need for capital over the forthcoming 12-month period, and additionally, free credit equivalent to at least 30 per cent of current borrowing.

Höganäs' aggregate borrowing has a longer capital fixing than interest fixing, implying that interest risk can be optimised, simultaneous with funding risk remaining under control.

Although Höganäs has no official credit rating, it is considered to have good prospects of covering its future funding needs directly through bank borrowing.

Liquidity, credit facilities and net indebtedness

As of year-end, Höganäs had confirmed bilateral credit totalling MUSD 256, which are revolving multi-currency credit facilities. Additionally, non-con-

firmed available credits amounted to MUSD 50. All credits are conditional on Höganäs' debt/equity ratio not exceeding 1.5; this parameter was 0.84 at year-end.

Net indebtedness, i.e. interest-bearing liabilities less liquid assets amounted to MSEK 1 651 (1 357) in 2003. Interest-bearing liabilities were MSEK 1 726 (1 434).

This implies that unutilised credit facilities amounted to 35 per cent of credit facilities drawn down, and as at year-end, Höganäs AB's liquidity reserves were MUSD 80.

For the last two years, interest expenses based on average net indebtedness:

	31 Dec. '03	31 Dec. '02
Interest cost	2.3%	3.2%

Group borrowing had the following maturity structure at year-end:

Yr.	Fixed interest, %	Floating interest, %
2004	15	7
2005	4	10
2006	4	52
2007	4	0
2008	4	0
Total	31	69

Counterparty risk - financial

Höganäs buys and sells derivative instruments from creditworthy counterparties exclusively. In terms of net receivables by counterparty, the aggregate counterparty exposure at year-end was MSEK 471.

Counterparty risk is divided as follows: currency-related derivative instruments, MSEK 396 and bank balances, MSEK 75.

When investing surplus liquidity, the policy is to invest in short fixed-income securities, with a minimum rating of K-1.

Counterparty risk - commercial

Höganäs' customer receivables are fairly diverse, with the greatest credit risk at year-end being MSEK 18. Credit checks are necessary for new customers before credit is issued. Customer losses in 2003 amounted to 0.05 (0.10) per cent of consolidated net sales.

Insurable risks

Höganäs has centralised non-life and professional indemnity cover. Although local insurance cover is necessary in some countries, in those cases where such cover does not satisfy the group's minimum standards, coverage is achieved through umbrella coverage using Höganäs AB's master insurance policy.

NOTE 25 PLEDGED ASSETS

MSEK	Group		Parent company	
	2003	2002	2003	2002
Mortgage deeds*	12	38	-	-
Other	2	17	-	-
Total	14	55	-	-

* Mortgage deeds relate to assets pledged for subsidiary liabilities to credit institutions.

NOTE 26 CONTINGENT LIABILITIES

MSEK	Group		Parent company	
	2003	2002	2003	2002
Surety given*	-	1	108	59
Of which for subsidiaries (maximum limit)	-	-	(108)	(58)
Guarantees**	43	45	38	39
Pension agreements***	15	15	15	14
Total	58	61	161	112

* Security for credits related to subsidiary working capital.

** The Pennsylvania Electric Company on behalf of North American Höganäs.

*** A maximum corresponding to the conditional pension agreement for CEO Claes Lindqvist after age 55.

NOTE 27 ACQUISITIONS OF SUBSIDIARIES

MSEK	Parent company	
	2003	2002
Intangible fixed assets	116	-
Tangible fixed assets	254	4
Financial assets	3	-
Inventories	198	1
Operating receivables	114	3
<i>Total assets</i>	<i>685</i>	<i>8</i>
Operating liabilities	122	2
Purchase price	563	6

For parent company investments in subsidiaries, please refer to note 14.

Audit Report

To the Shareholders of Höganäs AB (publ.)

Corporate Identity No. 556005-0121

We have examined the Annual Report, the Consolidated Financial Statements and the accounting records, and have reviewed the administration of Höganäs AB (publ.) by the Board of Directors and the Chief Executive Officer during 2003. Responsibility for the accounting documents and the administration rests with the Board and the Chief Executive Officer.

Our responsibility is to pronounce on the Annual Report, the Consolidated Financial Statements and the administration on the basis of our audit.

The audit has been carried out in accordance with generally accepted audit standards in Sweden. This implies that we have planned and conducted the audit so as to gain reasonable assurance that the Annual Report and the Consolidated Financial Statements do not contain material misstatement. An audit includes examining a selection of the documentation with respect to amounts and other information in the accounting records. An audit also includes a review of the accounting principles and their application by the Board of Directors and Chief Executive Officer, and to assess the information that has been compiled in the Annual Report and the Consolidated Financial Statements. As a basis for our statement regarding discharge from liability, we have examined significant decisions, measures and circumstances of the company in order to be able to determine whether any Director or the Chief Executive Officer is liable to compensate the company.

We have also examined whether any Director or the Chief Executive Officer has otherwise acted in contravention of the Swedish Companies Act, Annual Accounts Act or the Articles of Association. We are of the opinion that our audit gives us reasonable grounds to make the following pronouncements.

The Annual Report and the Consolidated Financial Statements have been prepared in accordance with the Annual Accounts Act and thus offer a true and accurate impression of the company's and the group's results and position in accordance with generally accepted auditing standards in Sweden.

We recommend that the Annual General Meeting adopts the Income Statement and Balance Sheet of the parent company and the group, appropriates the parent company's profits as proposed in the Directors' Report, and discharges the Directors and the Chief Executive Officer from liability for the financial year.

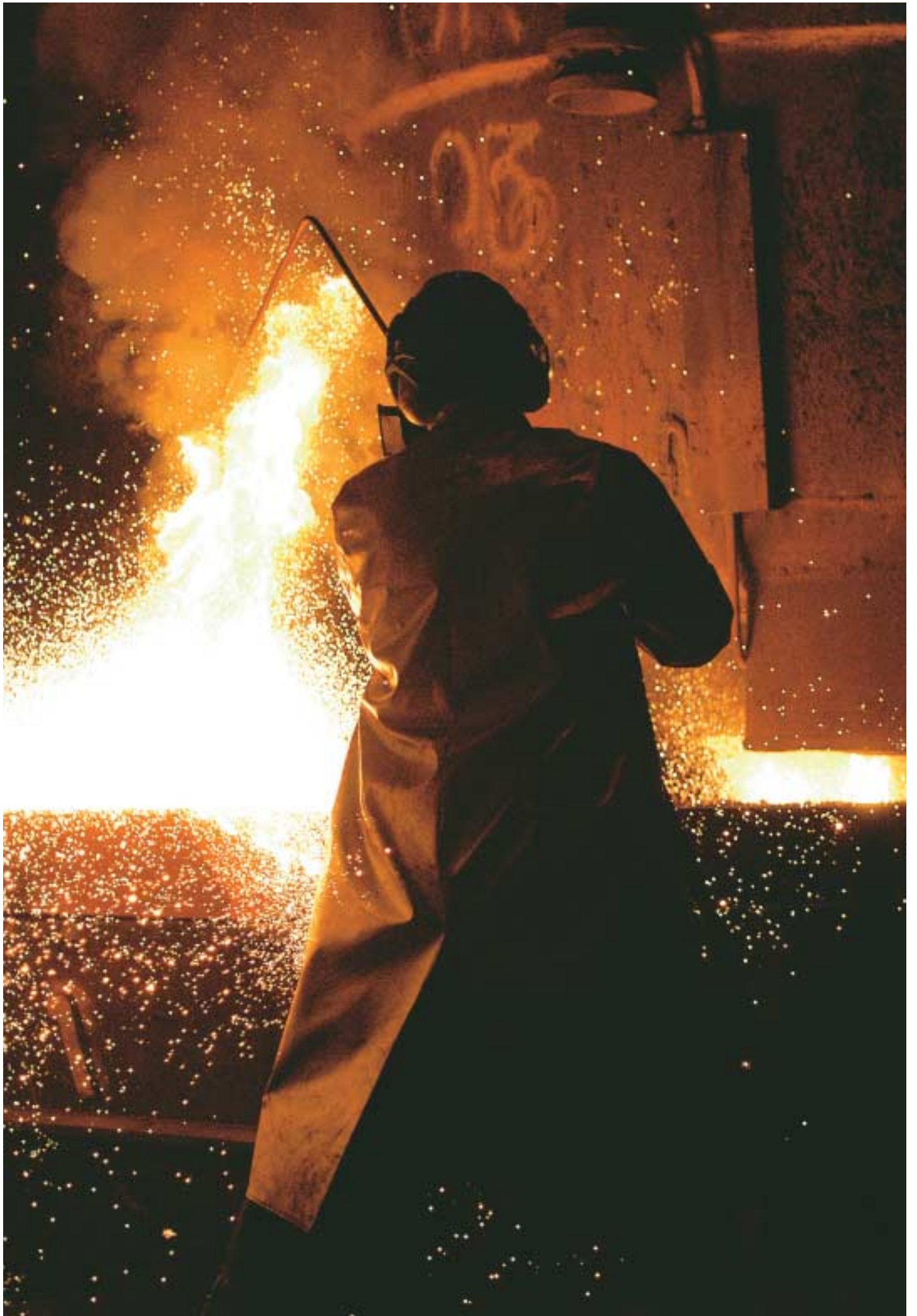
Höganäs, Sweden, 30 January 2004



Gert Frej
Authorised Public Accountant



Alf Svensson
Authorised Public Accountant



Five-year overview and quarterly data

FIVE-YEAR OVERVIEW

MSEK	2003	2002	2001	2000	1999
Net sales	3 750	3 249	3 245	3 070	2 392
Operating income	549	505	334	618	590
Net financial income and expenses	-35	-48	-39	-24	-12
Income before tax	514	457	295	844	629
Net income	355	335	209	520	421
Operating margin, %	14.6	15.5	10.3	20.1	24.7
Net margin, %	13.7	14.1	9.1	19.8*	26.3
Total assets	4 708	4 205	4 408	3 582	2 844
Shareholders' equity	1 974	1 827	1 744	1 798	1 848
Capital employed	3 701	3 263	3 489	2 579	2 139
Return on capital employed, %	15.8	15.0	11.0	26.7*	31.2
Return on equity, %	18.7	18.8	11.8	23.8*	24.7
Equity/assets ratio, %	41.9	43.5	39.7	51.2	66.1
Net indebtedness	1 651	1 357	1 661	667	150
Debt/equity ratio, multiple	0.84	0.74	0.95	0.36	0.08
Risk capital/assets, %	51.7	53.8	49.1	61.4	76.5
Interest coverage ratio, multiple	15.7	10.5	8.6	26.3*	53.4
Rate of capital turnover, multiple	1.08	0.96	1.07	1.3	1.17
Operating cash flow	446	518	-656	609	427
Cash flow after investments	-117	512	-726	66	299
Investments	309	328	914	435	205
Average number of employees	1 649	1 426	1 456	1 371	1 110
Net sales per employee	2.27	2.28	2.23	2.24	2.15

* Excluding the sale of HC shares

QUARTERLY DATA

MSEK	Q 1	Q 2	Q 3	Q 4
2003				
Net sales	983	935	895	937
Operating income	140	150	104	155
Operating margin, %	14.2	16.0	11.6	16.5
Income before tax	131	138	95	150
Net income	91	94	59	111
Earnings per share, SEK	2.70	2.70	1.70	3.30
2002				
Net sales	832	872	791	754
Operating income	135	155	104	111
Operating margin, %	16.2	17.8	13.1	14.7
Income before tax	123	142	90	102
Net income	87	97	63	88
Earnings per share, SEK	2.50	2.80	1.90	2.50
2001				
Net sales	810	851	805	779
Operating income	130	130	109	-35
Operating margin, %	16.0	15.3	13.5	-4.5
Income before tax	118	117	97	-37
Net income	82	83	70	-26
Earnings per share, SEK	2.40	2.40	2.00	-0.80

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 and deferred tax liabilities.

Return on capital employed

Income before tax plus net interest income/expense and exchange rate differences on financial loans in relation to average capital employed.

Return on shareholders' equity

Net income in relation to average shareholders' equity.

Equity/assets ratio

Shareholders' equity plus minority share in relation to total assets.

Net indebtedness

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

Debt/equity ratio

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

Risk capital/assets

Shareholders' equity, minority interests and deferred tax liability in relation to total assets.

Interest coverage ratio

Income before tax plus net interest income/expense and exchange rate differences on financial loans.

Rate of capital turnover

Net sales divided by average capital employed.

Operating cash flow

Cash flow after net investments but before acquisitions of companies/businesses.

Investments

Investments in fixed assets excluding acquisitions.

Earnings per share

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

Shareholders' equity per share

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.

Board of Directors



Ulf G Lindén
Bernt Magnusson



Jacob Palmstierna
Claes Lindqvist



Hans Mivér
Per Molin



Carina Bergkvist
Agnete Raaschou-Nielsen



Karl-Henry Boo
Magnus Lindstam



Sven Augustsson
Ingvar Olsson

Ulf G Lindén, Chairman, born 1937. Board member since 1994. D.Econ (honorary) D.Tech (honorary). Chairman of Lindéngruppen AB and AB Wilh. Becker. Board member of B & N Nordsjöfrakt AB and Gorthon Lines AB. Höganäs holdings: 0 shares privately, 7 650 000 shares through companies.

Per Molin, Deputy Chairman, born 1937. Board member since 1994. Board member of Fin Arvedi Spa and Siemens AB. Höganäs holdings: 4 000 shares.

Jacob Palmstierna, born 1934. Board member since 2000. D.Econ (honorary). Chairman of Siemens AB. Board member of Nordstjernan AB. Höganäs holdings: 2 000 shares.

Magnus Lindstam, born 1953. Board member since 2000. CEO of Lindéngruppen AB. Board member of AB Wilh. Becker. Höganäs holdings: 2 000 shares.

Bernt Magnusson, born 1941. Board member since 1994. Chairman of Dyno Nobel ASA and Swedish Match AB. Board member of Net Insight AB, Nordea AB, Pharmadule AB and Volvo Car Corporation. Adviser to the European Bank for Reconstruction and Development. Höganäs holdings: 17 500 shares.

Hans Mivér, born 1945. Board member since 1992. Chairman of ColArt Investment Ltd. Board member of AB Wilh. Becker and Remium Securities AB. Höganäs holdings: 10 000 shares.

Agnete Raaschou-Nielsen, born 1957. Board member since 2003. CEO of Zacco Denmark A/S. Deputy Chairman of the Danish International Investment Funds IFU, IØ and IFV. Board member of Danske Invest and BG Invest. Board member of the business history centre at Copenhagen Business School and the Danish Ministry for Economic and Business Affairs' economic research & analysis unit. Höganäs holdings: 250 shares.

Claes Lindqvist, President and CEO, born 1950. Board member since 1990. Member of the Boards of Jernkontoret (the Swedish steel industry sector organisation), the Southern Swedish Chamber of Industry and Commerce, AB Wilh. Becker, SIMI the Scandinavian International Management Institute and the Dunkers Foundations. Höganäs holdings: 80 800 shares, 30 000 options.

Karl-Henry Boo, Chairman of the Swedish Industrial Salaried Employees' Association at Höganäs AB. Born 1959, Board member since 1993. Höganäs holdings: 0 shares.

Sven Augustsson, Chairman of the Industrial Trade Union at Höganäs AB. Born 1952, Board member since 2001, deputy member 1995–2001. Höganäs holdings: 0 shares.

DEPUTY MEMBERS

Ingvar Olsson, Member of the Industrial Trade Union at Höganäs AB. Born 1953, deputy member since 2001. Höganäs holdings: 0 shares.

Carina Bergkvist, Member of the Swedish Association of Graduate Engineers at Höganäs AB. Born 1969, deputy member since 2002. Höganäs holdings: 0 shares.

Senior Executives and Auditors



Claes Lindqvist



Ulf Holmqvist



Jan Lundahl



Sten-Åke Kvist

Claes Lindqvist, CEO and President, born 1950.
Employed since 1990.
Höganäs holdings: 80 800 shares, 30 000 options.

Ulf Holmqvist, Senior Vice President, born 1954.
Employed since 1988.
Höganäs holdings: 3 500 shares, 20 000 options.

Sten-Åke Kvist, Senior Vice President, born 1942.
Employed since 1968. President of North American
Höganäs, Inc.
Höganäs holdings: 10 000 shares, 20 000 options.

Jan Lundahl, Group Controller, born 1943. Employed
since 1977.
Höganäs holdings: 6 000 shares, 20 000 options.

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

SWEDEN

Höganäs AB
SE-263 83 Höganäs
Phone +46 42 33 80 00
Fax +46 42 33 81 50
President and CEO: Claes Lindqvist

Höganäs Verkstads AB
SE-263 83 Höganäs
Phone +46 42 33 82 00
Fax +46 42 33 82 22
Managing Director: Lars Mattsson

BELGIUM

Höganäs Belgium S.A.
Ruelle Gros Pierre 10
BE-7800 Ath
Phone +32 68 26 89 89
Fax +32 68 28 57 75
Managing Director: Staffan Paues

BRAZIL

Höganäs Brasil Ltda
Av. Presidente Humberto de Alencar
Castelo Branco, 2705
Bairro Rio Abaixo
BR-Jacarei – Cep 12301-150
Phone +55 12 3954 5000
Fax +55 12 3954 5011
Managing Director:
José Carlos Pizarro

CHINA

Höganäs (China) Ltd
5646 Wai Qing Song Road
Qingpu
CN-Shanghai 201700
Phone +86 21 692 101 12
Fax +86 21 692 108 94
Managing Director: Holger Persson

FRANCE

Höganäs France S.A.
1117, Avenue Edouard Herriot
B.P. 117
FR-69654 Villefranche-sur-Saône
Cedex
Phone +33 474 02 97 50
Fax +33 474 60 63 61
Marketing Manager: Thierry Calmes

GERMANY

Höganäs GmbH
Grafenberger Allee 56
DE-40237 Düsseldorf
Phone +49 211 99 17 80
Fax +49 211 991 78 35
Managing Director: Günter Pache

INDIA

Höganäs India Ltd
Ganga Commerce
4, North Main Road
Koregaon Park
IN-Pune 411 001
Phone +91 20 4030175
Fax +91 20 4030188
Managing Director: Avinash Gore

ITALY

Höganäs Italia S.r.l.
Via Marsala 55/2
IT-16035 Rapallo (GE)
Phone +39 0185 23 00 33
Fax +39 0185 27 04 77
Marketing Manager: Felice Ursino

JAPAN

Höganäs Japan K.K.
Akasaka Shasta East Building
2-19, Akasaka, 4-Chome, Minato-Ku
JP-Tokyo 107-0052
Phone +81 3 3582-8280
Fax +81 3 3584-9087
Managing Director:
Göran Wastenson

SOUTH KOREA

Höganäs Korea Ltd
(7th fl Kunwoo Building
120 Nonhyun-Dong)
Kang Nam
P.O. Box 990
KR-Seoul 135-010
Phone +82 2 511 43 44
Fax +82 2 548 25 92
Managing Director: Holger Persson

SPAIN

Höganäs Ibérica S.A.
C/.Basauri, 17A Bajo Dcha
ES-280 23 Madrid
Phone +34 91 708 05 95
Fax +34 91 708 05 94
Managing Director: Ramón Martínez

TAIWAN

Höganäs Taiwan Ltd
Room B, No. 44, 7 fl., Chung Shan
North Road,
Section 2
TW-Taipei 104
Phone +886 2 2543 1618
Fax +886 2 2543 1511
Managing Director: Holger Persson

UNITED KINGDOM

Höganäs (Great Britain) Ltd
Rycote Place
30/38 Cambridge Street
GB-Aylesbury Bucks HP20 1RS
Phone +44 1296 486 646
Fax +44 1296 437 529
Managing Director:
Dr Keven Harlow

USA

North American Höganäs, Inc.
Stony Creek Plant
P.O. Box 509
111 Höganäs Way
US-Hollsopple, PA 15935-6416
Phone +1 814 479 3500
Fax +1 814 479 2003
President: Sten-Åke Kvist

AGENTS

AUSTRALIA

S. Weir Enterprises Pty Ltd
6 Carrington Road
P.O. Box 477
AU-Guildford
2161 New South Wales
Phone +61 2 9681 6155
Fax +61 2 9681 6092

BULGARIA

Balkan International Ltd
P O Box 952
19, Slavianska Str.
BGN-1000 Sofia
Phone +359 2980 3852
Fax +359 2980 4248

CZECH REPUBLIC

Ing Miloslav Makovicka
Lhotská 2209
CZ-19300 Prag 9
Phone +420 2 819 209 54
Fax +420 2 819 209 54

HUNGARY

S & S Kereskedelmi BT
Lágymányosi utca 7. fsz 1/b
HU-1111 Budapest
Phone +36 1 209 06 83
Fax +36 1 209 91 72

ISRAEL

Hugo Arnstein & Co
P O Box 2276
IL-101 Herzl Street, 5th fl.
Tel-Aviv 61021
Phone +972 3 682 4915
Fax +972 3 518 1668

LATVIA

Prof. Victor Mironov
Kleistu 15-41
LV-1067 Riga
Phone +371 708 9270
Fax +371 741 9153

PHILIPPINE AND MALAYSIA

CK Metal Trading
45, Jalan BRP 5/3
Bukit Rahman Putra
MY-47000 Sungai Buloh
Selangor, Malaysia
Phone +60 3 6157 8700
Fax +60 3 6157 9700

POLAND

KOS-Technika
Biuro Doradcze, Slawomir
Kozlowski
ul. Promienna 1A
PL-05-540 Zalesie Górne
Phone +48 22 73 62 377
Fax +48 22 73 62 377

ROMANIA

PromSID S.R.L.
Str Ion Campineanu Nr, 20 A
bl. 18 A sc A et 6 ap 23 S.1
RO-70709 Bukarest
Phone +40 21 315 78 12
Fax +40 21 315 77 73

RUSSIA

Formet
Svetlanovskii 2
Office 504
RU-194 156 St Petersburg
Phone +7 812 380 1242
Fax +7 812 380 1242

SOUTH AFRICA

Fe Powder Supplies (Pty) Ltd
Unit No. 8 – APD Industrial Park
Elsecar Road, Kya Sands
P.O. Box 242
ZA-2163 Randburg
Phone +27 11 708 7951
Fax +27 11 708 7983

THAILAND

Acme International (Thailand) Ltd
630 Onnuj 54
Sukumvit 77 Road, Suan Luang
TH-Bangkok 10250
Phone +66 2 320 5200
Fax +66 2 721 4729

TURKEY

Dr Ahmet Sina
Trek A.S.
Bagdat Caddesi 454, Suadiye
TR-81070 Istanbul
Phone +90 216 357 53 46
Fax +90 216 343 08 82

Annual General Meeting

The Annual General Meeting will be held on Thursday, 6 May 2004 at 3 p.m. at HB-hallen, Höganäs, Sweden.

Notification of intention to attend

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

Shareholders with nominee-registered holdings must ensure that their shares are temporarily re-registered in their own names at VPC by no later than 26 April 2004.

Shareholders intending to participate in the meeting should also inform the company in writing: Höganäs AB, SE-263 83 Höganäs, Sweden, or by phone: +46 (0)42 33 80 59 by 4 p.m. on Thursday 29 April 2004. Notifications must state the relevant name, personal or corporate identification number, address, telephone number and shareholding.

Dividends

The Board of Directors is proposing dividends of SEK 5.00 per share for 2003, with a record date of Tuesday 11 May 2004. If the AGM approves this proposal, dividends are scheduled for sending from VPC on Friday 14 May 2004.

Financial Information in 2004

Annual General Meeting	6 May 2004
Interim Report, January–March	15 April 2004
Interim Report, January–June	14 July 2004
Interim Report, January–Sept	14 October 2004





Höganäs 

Höganäs AB (publ), SE-263 83 Höganäs
Phone +46 42 33 80 00, fax +46 42 33 83 60
www.hoganas.com