

## Interim Report January-June 2003

### Highlights

• <b>Net sales</b>	<b>MSEK 1,918</b>	<b>+13%</b>
• <b>Income after tax</b>	<b>MSEK 185</b>	<b>+1%</b>
• <b>Earnings per share</b>	<b>SEK 5.40</b>	<b>(5.30)</b>
• <b>Income before tax</b>	<b>MSEK 269</b>	<b>+2%</b>
• <b>Operating margin</b>	<b>15.1%</b>	<b>(17.0)</b>
• <b>Equity/assets ratio</b>	<b>38%</b>	<b>(40)</b>

### Market situation

Höganäs' turnover increased by MSEK 214 to MSEK 1 918 (1 704) during the **first half** of 2003. The acquisition of SCM Metal Products, Inc. boosted turnover by MSEK 344. The rate of exchange of the Swedish krona was 11% higher compared to the previous year. Sales volumes on the North American market rose as a result of higher market shares. There was also a substantial increase in volume on Other Asian Markets.

The volume of sales (excluding semis) rose during the period by 5% (+11% including acquisition) compared to 2002. Volumes were up by 1% in Europe and by 3% in Japan. The increase on Other Asian Markets was 12%. Other Markets were up by 8%.

Press powders recorded an increase in volume of 7%. The rise amounted to 3% in Europe, 4% on the Japanese market and 14% on Other Asian Markets. This included an increase of 26% in China. Other Markets were up by 9%.

The volume of other iron powders was unchanged. Volumes were down by 3% in Europe, but up by 2% on Other Asian Markets and 4% on Other Markets.

With the acquisition of SCM, volumes of both Coldstream and SCM products are aggregated for purposes of reporting. Sales volume rose altogether by 224% (the increase for Coldstream powders was 2%). Further particulars are given in the table at the top of the page opposite.

During the **second quarter** turnover rose by MSEK 63 to MSEK 935 (872). The SCM acquisition raised turnover by MSEK 162. The value of the Swedish krona further appreciated by about 3% compared to the first quarter; its value was about 10% higher than in the second quarter of the previous year.

Volumes increased by 1% (+6% including acquisition). The increase in volume of press powders was 3%, with Other Asian Markets as the strongest growth sector at 11%. Volumes of both other iron powders and Coldstream powders fell by 3%.

### Financial position

Operating income amounted to MSEK 290 (290). Höganäs' Pension Fund appreciated by MSEK 9 during the second quarter, with the result that items affecting comparabilities during the first half of the year was zero (0).

Other operating income and expenses show the Group's total exchange results, which became MSEK +68 (-5). This includes the outcome from forward contracts amounting to MSEK +76 (+10). Not considering forward contracts, the stronger krona has drawn down operating income by MSEK 50 in 2003 compared to 2002.

The operating margin for the period was 15.1% (17.0).

The net result of the Group's financial income and expenses was MSEK -21 (-25). The cash flow for the year before investments amounted to MSEK 457 (436).

Income before taxes amounted to MSEK 269 (265), an increase of MSEK 4.

The Group's tax rate was one percentage point higher than in 2002; this was a result of fiscal effects associated with Höganäs' hedging of its equity in foreign subsidiaries.

The equity-assets ratio was 38% (40).

### Investments

Investment in fixed assets by the Group totalled MSEK 135 (149) including MSEK 82 in Sweden and MSEK 27 in Brazil; the latter referred to completion of a powder annealing line and custom mixing station.

### Finances

The Group's net debt increased by MSEK 409 this year, amounting to MSEK 1 766 at the end of the second quarter. Its debt-equity ratio was 0.96.

### Parent Company

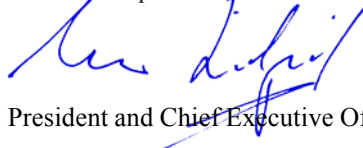
Invoicing by the Parent Company during the period amounted to MSEK 991 (1 128), including MSEK 437 invoiced to Group companies. Income after financial income and expenses was MSEK 284 (340). Cash & Bank at June 30, 2003 totalled MSEK 29 (164), not counting unutilized overdraft facilities. Investments amounted to MSEK 82 (52).

### Outlook

The market trend is expected to continue weak during the second half of the year. However, the forecast previously given for the whole of 2003 still stands, viz. that income before taxes is expected to be higher than in 2002.

Höganäs, July 11, 2003

Claes Lindqvist



President and Chief Executive Officer

## Volume development (tons) per application area and market

Markets	Press Powder			Other Iron Powder <sup>3)</sup>			Coldstream/SCM Products <sup>4)</sup>		
	Q2	Q2 <sup>1)</sup>	12months <sup>2)</sup>	Q2	Q2 <sup>1)</sup>	12months <sup>2)</sup>	Q2	Q2 <sup>1)</sup>	12months <sup>2)</sup>
Europe	25000	-1%	+4%	6300	-4%	-3%	1610	+19%	+14%
Japan	8200	+3%	+8%	1800	-10%	-20%	260	+100%	+71%
Asia (excl. Japan)	16000	+11%	+24%	3300	-10%	+4%	1040	+121%	+106%
Others	14100	+3%	+16%	5900	+5%	+8%	4060	+1130%	+648%
<b>Totally</b>	<b>63400</b>	<b>+3%</b>	<b>+12%</b>	<b>17300</b>	<b>-3%</b>	<b>0%</b>	<b>6970</b>	<b>+ 242%</b>	<b>+127%</b>

<sup>1)</sup> %-change compared with corresponding quarter previous year    <sup>2)</sup> %-change rolling 12-months    <sup>3)</sup> excl. semi finished powders

<sup>4)</sup> As from January 1, 2003, SCM is included

## Consolidated income statements, MSEK

	April-June		Jan-June		Rolling12-	Year
	2003	2002	2003	2002	months	2002
Net sales	935	872	1,918	1,704	3,463	3,249
Cost of sales	-705	-594	-1,446	-1,171	-2,567	-2,292
<b>Gross profit</b>	<b>230</b>	<b>278</b>	<b>472</b>	<b>533</b>	<b>896</b>	<b>957</b>
Selling expenses	-48	-48	-98	-95	-188	-185
Administrative expenses	-41	-39	-81	-76	-149	-144
R&D expenses	-36	-35	-71	-67	-137	-133
Items affecting comparabilities	9	-	0	-	-25	-25
Other income	38	13	73	23	100	50
Other expenses	-2	-14	-5	-28	8	-15
<b>Operating income</b>	<b>150</b>	<b>155</b>	<b>290</b>	<b>290</b>	<b>505</b>	<b>505</b>
Financial income	9	8	16	16	33	33
Financial expenses	-21	-21	-37	-41	-77	-81
<b>Income before tax</b>	<b>138</b>	<b>142</b>	<b>269</b>	<b>265</b>	<b>461</b>	<b>457</b>
Taxes	-44	-45	-84	-81	-143	-140
Minority share	-	-	-	-	-	-
<b>Net income</b>	<b>94</b>	<b>97</b>	<b>185</b>	<b>184</b>	<b>318</b>	<b>317</b>
Operating margin, %	16.0	17.8	15.1	17.0	14.6	15.5
Earnings per share, SEK (after actual tax)	2.70	2.80	5.40	5.30	9.30	9.20

## Consolidated balance sheets, MSEK

	30 June 2003	31 Dec 2002	30 June 2002
Intangible assets	227	170	178
Tangible assets	2,827	2,660	2,643
Financial assets	87	83	86
Inventory	809	631	626
Short-term receivables	810	584	620
Cash and bank	123	77	197
<b>Total assets</b>	<b>4,883</b>	<b>4,205</b>	<b>4,350</b>
Shareholders' equity	1,832	1,827	1,747
Minority interests	2	2	5
Interest-bearing liabilities	1,889	1,434	1,730
Non interest-bearing liabilities	1,160	942	868
<b>Total shareholders' equity and liabilities</b>	<b>4,883</b>	<b>4,205</b>	<b>4,350</b>
Equity/assets ratio	38%	44%	40%

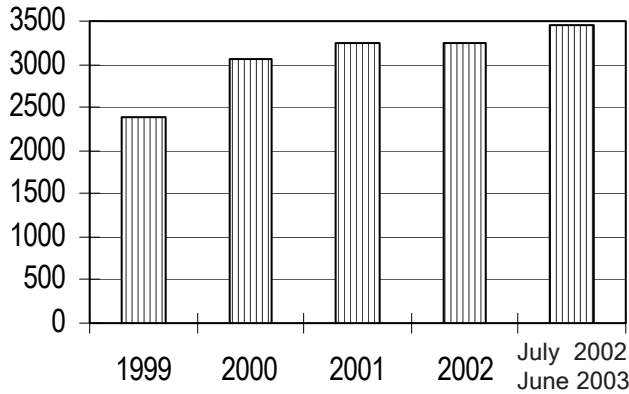
This interim report has not been subjected to scrutiny by company's auditors.

### FINANCIAL INFORMATION

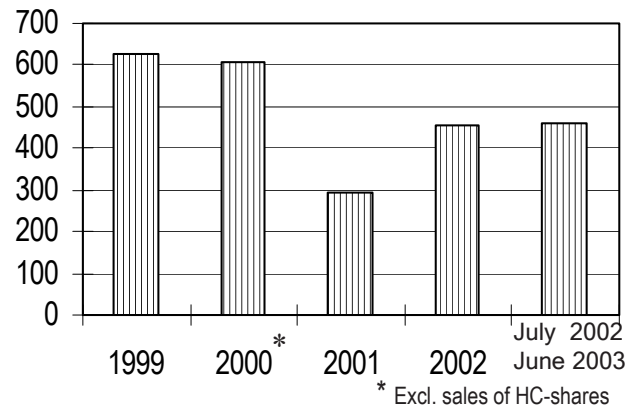
Höganäs intends to publish the following financial information during 2003:

- ◆ Interim report for first nine months on 13 October

### Net sales, MSEK



### Income before taxes, MSEK



<b>MSEK</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>Consolidated Quarterly data</b>	<b>April - June</b>		<b>Jan - March</b>		<b>Oct - Dec</b>		<b>July- Sept</b>	
Net sales	935	872	983	832	754	779	791	805
Operating expenses	- 723	- 656	- 759	- 635	- 592	- 648	- 602	- 643
Items affecting comparabilities	9	-	- 9	-	2	- 117	- 27	-
Depreciation	- 71	- 61	- 75	- 62	- 53	- 49	- 58	- 53
<b>Operating income</b>	<b>150</b>	155	140	135	111	- 35	104	109
Income before tax	138	142	131	123	102	- 37	90	97
Net income	94	97	91	87	70	- 26	63	70
Operating margin, %	16.0	17.8	14.2	16.2	14.7	- 4.5	13.1	13.5
Operating margin, % excl. items affecting comparabilities	15.1	17.8	15.2	16.2	14.5	10.5	16.6	13.5
<b>Key indicators</b>								
Earnings per share, SEK	2.70	2.80	2.70	2.50	2.00	- 0.80	1.90	2.00
Equity, SEK/share	53.50	50.60	55.90	52.80	53.40	50.50	52.60	51.50
Number of shares, 1000's	34,217	34,502	34,217	34,502	34,217	34,502	34,502	34,527
Number of shares, average 1000's*	34,217	34,502	34,217	34,502	34,360	34,515	34,502	34,527
<b>Consolidated Cash Flow analysis, MSEK</b>			<b>Jan - June 2003</b>		<b>Jan - June 2002</b>			
Cash flow before change in working capital			637		570			
Change in working capital			-180		- 134			
Acquisitions			-560		-			
Disposals			-		-			
Net investments			-135		-149			
Change in long-term receivables, provisions and liabilities			3		2			
<b>Cash flow after investments</b>			<b>-235</b>		<b>289</b>			
Buy back of own shares			-		-			
Dividend			-171		-155			
Change in financing			455		-9			
<b>Cash flow for the period</b>			<b>49</b>		<b>125</b>			
Liquid funds, opening balance			77		78			
Exchange rate difference in liquid funds			-3		-6			
Liquid funds, closing balance			123		197			
<b>Changes in shareholders' equity, MSEK</b>			<b>Jan - June 2003</b>		<b>Jan - June 2002</b>			
Balance brought forward			1,827		1,744			
Net income			185		184			
Buy back of own shares			-		-			
Dividend			-171		-155			
Translation difference			-9		-26			
<b>Balance carried forward</b>			<b>1,832</b>		<b>1,747</b>			
<b>Return on shareholders' equity (rolling 12-months)</b>			<b>17.8%</b>		<b>13.2%</b>			
<b>Debt/equity ratio</b>			<b>0.96</b>		<b>0.88</b>			

\*) Outstanding call options do not cause equity dilution as present value of the offer price exceeds actual value.