

# Höganäs AB (publ)

## Year End Report 1999

### Highlights

• Invoicing	2,392 MSEK	+8%
• Income before tax	629 MSEK	+11%
• Operating margin	24.7%	(24.3)
• Equity/assets ratio	66%	(63)
• Proposed dividend	SEK 4.00 per share	(3.70)
• Acquisition of steel company in the US during January		

### Consolidated income statements MSEK

	1999	1998
Net sales	2,392	2,210
Cost of sales	<u>-1,488</u>	<u>-1,478</u>
<b>Gross Profit</b>	<b>904</b>	<b>732</b>
Selling expenses	-143	-115
Administrative expenses	- 97	- 81
R&D expenses	- 87	- 73
Items affecting comparabilities	23	1
Other income	5	80
Other expenses	<u>-15</u>	<u>- 6</u>
<b>Operating income</b>	<b>590</b>	<b>538</b>
Share of associates' profit	51	55
Financial income	7	6
Financial expenses	<u>-19</u>	<u>- 32</u>
<b>Income before tax</b>	<b>629</b>	<b>567</b>
Taxes	-205	-177
Minority share	<u>- 3</u>	<u>- 2</u>
<b>Net income</b>	<b>421</b>	<b>392</b>
Operating margin, %	24.7	24.3
Earnings per share, SEK (after actual tax)	11.00	10.20

### Market situation

Höganäs' turnover in 1999 increased by 8% to MSEK 2 392 (2 210). The weakening of the Swedish krona compared to the previous year corresponds to a 3% increase in the Group's turnover. Discontinued deliveries of crude powder to Mannesmann has reduced the turnover figure by 4% compared to 1998.

The volume of sales (excluding semis) during the year was 11% greater than in 1998. The rate of volume increase in the fourth quarter was 23%. Volume increased by 3% in Europe, but was unchanged in Japan. In the rest of Asia volumes were up by 26%.

Press powders recorded a total increase in volume of 15%. The increase on European markets was 5%, and on the Japanese market 7%. Other Asian markets recorded a vigorous volume growth of 32%. Volumes rose by nearly 50% on the Chinese market and by over 60% in South Korea.

The volume of powders sold for welding electrode manufacture fell by 4%. Deliveries to Western Europe fell by 18%, but the volume sold to South Korea rose by 6%. Volumes of powders for chemical and metallurgical applications were up by 4%. Sales of thermal coating powders increased in volume by 8%.

### Financial position

Operating income amounted to MSEK 590 (538) for 1999, an increase of MSEK 52 (10%). This figure includes costs amounting to MSEK 13 for establishing operations in the United States of America. Non-recurring items amounting to MSEK 23 (1) are largely accounted for by MSEK 23 in damages from Sydvaranger ASA, which were booked as income in the third quarter.

Other operating income and expenses include net exchange gains of MSEK 9 (54) from forward contracts.

The operating margin was 24.7% (24.3).

The net result of the Group's financial income and expenses, MSEK -12 (-26) continued to improve compared to previous years. To give fairer accounting figures for the future operations of Höganäs Brasil Ltda (formerly Belgo Brasileira), USD has replaced BRL as the functional currency. This change increased the net figure for financial transactions by about MSEK 2 during the fourth quarter.

Income before tax amounted to MSEK 629 (567) an increase of MSEK 62 or 11%.

As a result of the increase in net income, the equity-assets ratio improved to 66% (63).

### Investments

Investments in fixed assets by the Group during 1999 amounted to MSEK 205 (168). These investments referred to projects involving a new production plant for Astaloy CrM and increased custom-mixing capacity in Höganäs and China, expansion of iron powder production capacity in India, and improvements to the stainless-steel powder production facilities at Coldstream SA in Belgium.

### Parent Company

Invoicing by the Parent Company in 1999 amounted to MSEK 1 871 (1 750), including MSEK 709 invoiced to Group companies. Income after financial income and expenses was MSEK 672 (469). Cash & Bank at 31 December 1999 totalled MSEK 48 (39), not counting unutilized overdraft facilities. Investments totalled MSEK 150 (150).

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

Markets	Press Powder			Chem/Met <sup>3)</sup>			Welding Powder			Thermal Coating Powder		
	Q1-4	Q4 <sup>1)</sup>	12month <sup>2)</sup>	Q1-4	Q4 <sup>1)</sup>	12month <sup>2)</sup>	Q1-4	Q4 <sup>1)</sup>	12month <sup>2)</sup>	Q1-4	Q4 <sup>1)</sup>	12month <sup>2)</sup>
<b>Europe</b>	94100	+18%	+5%	17400	+36%	+2%	10300	±0%	-18%	920	+5%	-2%
<b>Japan</b>	27900	+16%	+7%	12000	-8%	-14%	600	-15%	-16%	90	+20%	-5%
<b>Asia (excl. Japan)</b>	46700	+30%	+32%	3900	+51%	+29%	9100	-11%	±0%	80	+80%	+65%
<b>Others<sup>4)</sup></b>	17600	+88%	+50%	3100	+525%	+235%	3300	+62%	+71%	140	+250%	+130%
<b>Totally<sup>4)</sup></b>	<b>186300</b>	<b>+26%</b>	<b>+15%</b>	<b>36400</b>	<b>+32%</b>	<b>+4%</b>	<b>23300</b>	<b>+1%</b>	<b>-4%</b>	<b>1230</b>	<b>+15%</b>	<b>+8%</b>

<sup>1)</sup> %- change compared with corresponding quarter previous year

<sup>2)</sup> %- change rolling 12-month

<sup>3)</sup> excl. semi finished powders

<sup>4)</sup> From June 1999 included Belgo Brasileira

## Dividend and buyback of shares

The Board of Directors recommends that the Annual General Meeting approve a dividend payment of SEK 4.00 per share (3.70). The Board further seeks authorization from the Annual General Meeting to decide about buying and selling the company's shares in accordance with expected amendments to the Swedish Limited Companies Act.

## Events after the end of the year

In January 2000 Höganäs made an agreement with ChemFirst, Inc. to acquire the FirstMiss Steel, Inc. steelworks. Höganäs intends to convert the steelworks into a high-efficiency manufacturing facility for production of customized qualities of atomized powder. An extensive investment programme of about MSEK 300 is envisaged, and is expected to be completed by the third quarter of 2001. In the first phase, this will result in an annual capacity of 100 000 tonnes. This acquisition means that Höganäs will have its own production facility on the North American market much sooner than expected and that the investment cost will be substantially reduced compared to the green-field alternative.

Höganäs AB and Hoeganaes Corporation have agreed on the use of the name Höganäs as a trademark and a tradename on the North American market. As a consequence, Höganäs AB's newly established US subsidiary will change its name from Höganäs North America, Inc. to North American Höganäs, Inc.

SPP, the pension scheme for private-sector salaried staff in Sweden, allocated surplus funds of MSEK 32 to Höganäs during the fourth quarter. However, as SPP has decided to defer payment pending a ruling by the Swedish antitrust authority, Höganäs has chosen not to show this amount in the accounts for 1999.

## Outlook

Demand on all markets is expected to continue to be good in 2000. Acquisitions of companies in both South and North America are expected to further contribute to accelerated growth. Höganäs will divest itself of its 20% stake in the Hoeganaes Corporation during the first half of 2000 at an agreed price of MUSD 65.

Investments already made and planned for the years immediately ahead are expected to lead to stronger growth.

Höganäs, 10 February 2000

The Board of Directors

## Consolidated balance sheets

### MSEK

	31 Dec 1999	31 Dec 1998
Intangible assets	93	16
Tangible assets	1,361	1,228
Financial assets	317	417
Inventory	510	437
Short-term receivables	454	389
Cash and bank	109	61
<b>Total assets</b>	<b>2,844</b>	<b>2,548</b>
Shareholders' equity	1,848	1,567
Minority interests	32	29
Interest-bearing liabilities	259	370
Non interest-bearing liabilities	705	582
<b>Total shareholders' equity and liabilities</b>	<b>2,844</b>	<b>2,548</b>
Equity/assets ratio	66%	63%

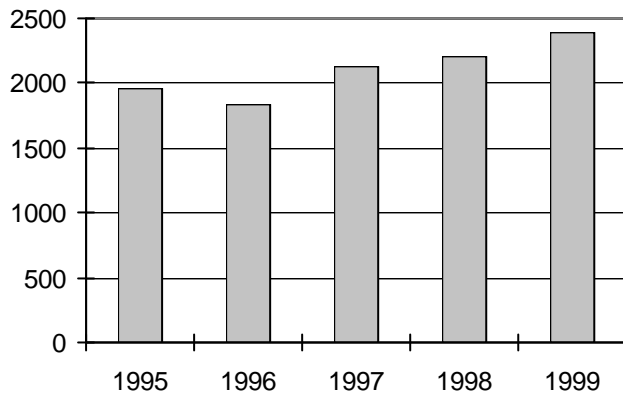
## FINANCIAL INFORMATION

Höganäs plans to publish following financial information during 2000

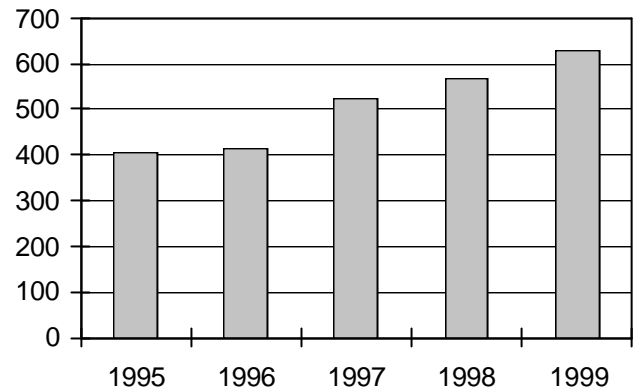
- Annual report in mid-March
- Interim report for first quarter on 14 April
- Interim report for first six months on 14 July
- Interim report for first nine months on 13 October

The Annual General Meeting will be held on 11 May

**Net sales, MSEK**



**Income before tax, MSEK**



## Consolidated Quarterly analysis; MSEK

	Oct - Dec		July - Sept		April - June		Jan - March	
	1999	1998	1999	1998	1999	1998	1999	1998
Net sales	657	555	584	502	595	563	556	590
Operating expenses	-469	-382	-400	-357	- 420	- 399	- 388	- 420
Depreciation	- 33	- 29	-31	-29	- 31	- 28	- 30	- 28
<b>Operating income</b>	<b>155</b>	144	153	116	144	136	138	142
Income before tax	<b>168</b>	156	159	119	155	143	147	149
Net income	<b>108</b>	108	108	82	105	99	100	103
Operating margin, %	<b>23.6</b>	25.9	26.2	23.1	24.2	24.2	24.8	24.0
Earnings per share, SEK	<b>2.80</b>	2.80	2.80	2.10	2.80	2.60	2.60	2.70

## Consolidated Cashflow analysis, MSEK

	1999	1998
Operating income before depreciation	715	652
Change in working capital (excl. taxes)	- 75	- 66
Fixed assets	- 335	- 178
<b>Cashflow from operations</b>	<b>305</b>	408
Dividend	- 141	- 127
Financial items/taxes	- 6	- 121
<b>Net cashflow</b>	<b>158</b>	160