

Annual Report 2011

H+H International A/S



H+H

build with ease

H+H

Contents

MANAGEMENT'S REVIEW

- 3 Five-year summary
- 5 Summary
- 6 Review of the year
- 8 Key figures
- 11 Outlook for 2012
- 12 Financial review
- 16 Strategy
- 19 Risk management
- 22 Investor relations
- 26 Corporate governance
- 27 Corporate social responsibility
- 28 Management

MANAGEMENT STATEMENT AND INDEPENDENT AUDITORS' REPORT

- 32 Management statement
- 33 Independent auditors' report

FINANCIAL STATEMENTS

- 34 Income statement
- 35 Statement of comprehensive income
- 36 Balance sheet
- 38 Cash flow statement
- 39 Statement of changes in equity
- 41 Notes

- 90 H+H addresses

Five-year summary

Income statement (DKKm)	2011*	2010*	2009	2008	2007
Revenue	1,309.8	1,185.5	1,068.0	1,439.5	1,850.2
Gross profit	282.3	237.6	247.7	437.3	652.0
Profit before depreciation, amortisation and financial items (EBITDA)	91.5	(4.8)	1.0	135.5	347.1
Operating profit (EBIT)	(10.5)	(245.4)	(205.3)	19.0	222.4
Net financing costs	(42.3)	(29.1)	(58.3)	(17.6)	(17.4)
Profit before tax	(52.8)	(274.5)	(263.5)	1.4	205.1
Profit for the year from continuing operations	(68.9)	(262.9)	-	-	-
Profit for the year from discontinued operations	(48.6)	(7.6)	-	-	-
Profit for the year	(117.5)	(270.5)	(232.5)	1.7	157.5
Balance sheet – assets (DKKm)					
Non-current assets	1,173.2	1,359.2	1,495.4	1,558.9	1,361.7
Current assets	407.5	294.9	359.6	363.9	422.1
Total assets	1,580.7	1,654.1	1,855.0	1,922.8	1,783.7
Balance sheet – equity and liabilities (DKKm)					
Share capital	490.5	490.5	490.5	109.0	116.0
Equity	553.5	725.6	958.2	743.2	990.3
Non-current liabilities	755.9	759.0	749.6	1,015.7	180.0
Current liabilities	271.3	169.6	147.2	163.9	613.4
Total equity and liabilities	1,580.7	1,654.1	1,855.0	1,922.8	1,783.7
Cash flow (DKKm)					
Cash flow from operating activities	42.9	46.4	(41.7)	60.8	266.5
Cash flow from investing activities	(32.2)	(31.8)	(119.4)	(476.9)	(259.5)
Free cash flow	10.8	14.6	(161.1)	(416.1)	7.0
Investments and debt (DKKm)					
Investments in non-current assets during the period	36.9	35.2	104.6	492.7	263.0
Interest-bearing debt (net)	628.5	613.6	595.8	863.0	380.8
Financial ratios					
Gross margin	21.6%	20.0%	23.2%	30.4%	33.2%
Operating margin (EBITA margin)	(0.8%)	(10.4%)	(11.3%)	1.3%	12.5%
Return on invested capital (ROIC)	(0.8%)	(8.9%)	(7.2%)	1.2%	16.1%
Return on equity	(18.4%)	(32.1%)	(27.3%)	0.2%	16.9%
Solvency ratio	35.0%	43.9%	51.7%	38.7%	55.5%
Net interest-bearing debt/EBITDA	6.9	(127.2)	595.8	6.4	1.1
Average number of shares outstanding	9,789,511	9,789,511	1,432,844	1,090,436	1,146,072
Adjusted average number of shares outstanding	9,789,511	9,789,511	2,457,792	2,180,872	2,292,144
Share price, year-end (DKK)	42	53	63	304	1,362
Book value per share, year-end (DKK)	56	74	98	682	854
Price/book value	0.8	0.7	0.6	0.4	1.6
Price-earnings ratio (PE)	(3.5)	(1.9)	(0.7)	199.9	9.9
Earnings per share (adjusted)	(12.0)	(27.6)	(94.6)	0.8	68.7
Diluted earnings per share (adjusted)	(12.0)	(27.6)	(94.6)	0.8	68.5
Dividend per share (adjusted)	0	0	0	0	15.0
Payout ratio	0%	0%	0%	0%	22.1%
Average full-time equivalent staff	1,084	1,156	1,238	1,282	1,379

* Figures have been adjusted for discontinued operations.

Earnings per share and diluted earnings per share have been calculated in accordance with IAS 33 (note 11). The other financial ratios have been calculated in accordance with the Danish Society of Financial Analysts' 'Recommendations & Ratios 2010'. Reference is made to definitions and concepts in note 1 'Accounting policies'.



Summary

EBITDA was DKK 91.5 million, against a loss of DKK 4.8 million in 2010. EBITDA before special items was DKK 96.6 million. These results are in line with the most recently announced outlook for continuing operations, which was EBITDA before special items in the region of DKK 95-100 million. Although 2011 brought a substantial improvement, earnings are still not satisfactory.

- Revenue from continuing operations was DKK 1,310 million (2010: DKK 1,186 million), an increase of 10.5%.
- Sales were satisfactory in most markets, driven by substantial growth in the first half of the year, but there was more subdued growth in the second half as escalating economic turmoil slowed growth in sales volumes.
- H+H's strategy has been reviewed in order to deliver satisfactory financial results and reduce H+H's debt levels.
- The committed credit facility with Danske Bank A/S of around DKK 800 million has been extended until 15 February 2015. The associated financial covenants have been adjusted at the same time to be in line with H+H's new strategy and long-term financial targets.
- Equity decreased by DKK 172.1 million to DKK 553.5 million at the end of 2011. With total assets of DKK 1,580.7 million, this gives an equity ratio of 35%.
- The Board of Directors will recommend at the annual general meeting that no dividend be paid for 2011.
- An increase in earnings is anticipated in 2012, with EBITDA for continuing operations in the region of DKK 110-140 million before special items. Free cash flow is expected to be positive in the region of DKK 0-20 million before disposal of assets, while total investments are expected to be in the region of DKK 50 million.

Review of the year

Significant events

There was growth in revenue in the first half of 2011 but, as expected, this did not continue at the same rate in the second half as escalating economic turmoil slowed growth in sales volumes. Average selling prices rose in 2011. Price rises were achieved especially in Germany and Russia, resulting in higher average prices in these markets than in 2010.

Earnings in 2011 were better than in 2010, aided by the successful implementation of the efficiency programme launched in 2010 and expanded in 2011. H+H's selling costs, administrative expenses and production overheads have been optimised, and there has been a reduction in staff numbers. The focus has been on optimisation of production facilities and clear prioritisation of H+H's business activities. Despite the improvement, earnings are still not satisfactory.

New strategy for H+H in 2012-2014

The strategic plan covers the period from 2012 up to and including 2014, during which time the aim is to deliver satisfactory financial results and reduce H+H's debt levels.

In the light of H+H's current financial performance and debt levels, the following overall guiding principles apply to 2012-2014 (the strategic planning period):

- To focus on the potential in existing geographical markets.
- To have sufficient production capacity to support planned growth.
- To remain focused on the aircrete market only.
- To build on existing technology and develop solutions based on this.
- To grow organically rather than through mergers and acquisitions

Within these guiding principles, H+H should be able to grow the top line by 30% with its existing production capacity, assuming geographically balanced market growth.

H+H has defined three strategic goals that need to be fulfilled within the time span of the strategic plan:

- **Become or remain number 1 or 2 in all chosen geographical markets.** H+H will position itself as a full-fledged branded aircrete supplier.
- **Be financially independent.** Long-term growth for H+H will require H+H to be able to reinvest cash from operations in market expansion and development of new technology. Therefore net debt should not exceed EBITDA by more than a factor of 2 in 2014.
- **Achieve capacity utilisation above 75%.** Capacity utilisation below 75% at any plant is loss-making, and it would be more desirable to consolidate production capacity if this is not achieved.

Read more about H+H's new strategy on pp 16-18.

Takeover interest in H+H International A/S

On its own initiative and without the involvement of H+H International A/S, Xella International Holdings S.à.r.l. ("Xella") submitted a pre-merger notification with H+H to the relevant competition authorities in the EU and Germany (due to the European Commission's referral of the German part of the matter to the German competition authority ("Bundeskartellamt")). Reference is made to prior company announcements.

During the evaluation period an offer for commitments submitted by Xella to try to counter the negative competitive consequences in relation to a merger was rejected by the Bundeskartellamt.

On 14 March 2012, the Bundeskartellamt issued a decision in relation to Xella's notification whereby the Bundeskartellamt prohibited a possible merger between Xella and H+H within the German market.

Xella may appeal the decision by the Bundeskartellamt by bringing the decision before Oberlandesgericht Düsseldorf (Düsseldorf Higher Regional Court). Regardless of a potential appeal from Xella, H+H will continue to pursue its strategy on a stand-alone basis as described in this annual report.

Events after the balance sheet date

No events have occurred after the balance sheet date that will have a material effect on the parent company's or the H+H Group's financial position.

Changes to the Board of Directors and Executive Board

Five members of the Board of Directors were re-elected at the annual general meeting in April 2011, while one member chose not to stand again. As a result, the Board of Directors now has five members.

Michael Troensegaard Andersen took up his position as CEO with effect from 4 April 2011.

Dividend

The Board of Directors will recommend at the annual general meeting on 18 April 2012 that no dividend be paid for the 2011 financial year.

Capital structure

In 2005-2009, H+H made major investments in Eastern Europe in particular, and this led to a substantial increase in net interest-bearing debt, especially in 2008-2009. Debt levels were largely unchanged in 2010 and 2011.

H+H had net interest-bearing debt of DKK 628.5 million at the end of 2011, up DKK 14.9 million from the end of 2010. If exchange rates had remained constant throughout the year, net interest-bearing debt would have been DKK 613.5 million.

As a consequence of H+H's stabilising debt levels and the expected positive cash flow in the years ahead, in February 2012 the company decided to cut its borrowing costs by reducing the committed loan agreement with Danske Bank A/S by DKK 50 million to around DKK 800 million.

The new strategic plan of H+H has enabled the company to extend its committed credit facility with Danske Bank A/S until 15 February 2015. The associated financial covenants have been adjusted at the same time.

Positioned for growth

The substantial investment in production capacity in recent years, coupled with a significant decrease in revenue, has meant that H+H's production capacity is not being fully utilised. As a result, when markets turn and sales volumes rise again, H+H will be able to handle the increase in volumes with its existing production capacity.

Key figures

EBITDA was DKK 91.5 million, against a loss of DKK 4.8 million in 2010. EBITDA before special items was DKK 96.6 million. These results are in line with the most recently announced outlook for continuing operations, which was EBITDA before special items in the region of DKK 95-100 million. The original outlook for the year was DKK 100-140 million. Although 2011 brought a substantial improvement, earnings are still not satisfactory.

Revenue from continuing operations was DKK 1,309.8 million (2010: DKK 1,185.5 million), an increase of 10.5%. H+H retained or increased its market share in all markets.

Free cash flow was positive at DKK 10.8 million, which is in line with the most recently announced outlook of around DKK 10-20 million. The original outlook for the year was DKK 20-60 million. Net interest-bearing debt amounted to DKK 628.5 million at the end of the year. If exchange rates had remained constant throughout the year, debt would have been DKK 15.0 million lower.

WESTERN EUROPE

H+H Danmark A/S

Sales in Denmark reflected nascent optimism in the residential construction market and came out substantially higher than in 2010. The increase in activity in 2011 is unlikely to continue into 2012, however, and largely unchanged sales volumes are anticipated in a market still dogged by uncertainty.

H+H Deutschland GmbH

The German residential newbuild market expanded significantly in 2011, due partly to the downturn in construction in 2009 and 2010. Growth in completions is expected to slow in 2012 but remain slightly positive.

Prices for H+H's products in Germany climbed in 2011 and are beginning to approach the levels seen before the economic crisis. Sales from the German factories to sister companies were slightly higher than in 2010. Gently rising sales and relatively stable prices are anticipated in 2012. For 2012 the focus remains on achieving higher prices ahead of increasing market shares.

H+H Finland Oy

H+H's factory manufactures blocks and reinforced products, supplying not only Finland but also the Swedish market. There were very low levels of both commercial and residential construction in Finland in 2011, and activity has remained subdued into 2012. The focus during the year will be on expanding the Finnish

market to include construction of apartments and more of the industrial segment.

H+H Nederland B.V.

Revenue rose slightly in 2011 in a gently falling market, but H+H's sales in the Netherlands are still relatively limited. A further increase is expected in 2012 despite a difficult market.

H+H Sverige AB

The last couple of years have seen healthy growth in residential and commercial construction, and the market is expected to be relatively flat in 2012. The Swedish krona appreciated against the euro in 2010 and 2011, making the company's products more competitive relative to locally manufactured substitute building materials.

H+H UK Ltd

The market was slightly positive in 2011, contracting in the first half of the year and expanding in the second half.

Private and public housebuilding are expected to decline slightly in 2012 due to limited mortgage availability, cuts in public spending on social housing, and reduced buyer confidence due to fears of falling house prices and an uncertain employment outlook.

In terms of sales of aircrete, however, this decline is expected to be offset by an increased shift from the construction of apartments to the construction of houses, resulting in increased use of aircrete. All in all, sales volumes are expected to be largely unchanged from 2011.

Jämerä-kivitalot Oy

As part of its continued focus on core business, H+H has decided to divest its Finnish subsidiary Jämerä-kivitalot Oy, which designs and sells the construction of aircrete houses for private individuals. As the company has been loss-making for a number of years, the divestment will have a positive effect on H+H's future earnings. It is expected that the divestment can be completed by the end of the third quarter of 2012. Jämerä's activities are therefore no longer reported as continuing operations.

EASTERN EUROPE

H+H Česká republika s.r.o.

Sales in the Czech Republic grew in 2011 despite very difficult market conditions, and sales volumes are expected to continue to rise gently in 2012. The Czech market is still under considerable

pressure and is expected to contract slightly in 2012. The Czech factory supplies the Czech, German and Slovak markets.

H+H Polska Sp. z o.o.

The Polish newbuild market was hit hard by the economic crisis, and the number of starts has been falling in recent years. There was also a small increase in market share in 2011, as the focus in Poland is on raising prices ahead of maintaining volumes, and there has been fierce price competition for aircrete. Slightly improved market conditions are anticipated in 2012.

OOO H+H

The factory near St Petersburg in Russia was completed in late 2009, making 2011 H+H's second year in the Russian market. The market expanded in 2011, and demand far outstripped supply for long periods. Prices in the aircrete market climbed as a result of increased demand and rising raw material costs.

Increased production and sales are anticipated in 2012.

H+H believes that the Eastern European market will be attractive for the Group in future, with good growth potential despite the economic crisis.

SEGMENT INFORMATION

Segment information for continuing operations

Amounts in DKK million	2011	2010	2011	2010
	Western Europe		Eastern Europe	
Revenue	928.5	810.8	381.3	374.7
EBITDA	93.2	37.6	11.3	(6.0)
Depreciation	(58.9)	(71.5)	(42.9)	(46.3)
EBITA	34.3	(33.9)	(31.6)	(52.3)
EBIT	34.3	(34.1)	(31.6)	(172.3)
Profit before tax*	17.5	(49.2)	(68.7)	(209.8)
Non-current assets	792.9	607.0	635.5	733.6
Investments in intangible assets and property, plant and equipment	23.4	15.3	11.4	15.6
Assets	1,144.8	854.2	739.1	820.4
Equity	478.6	289.0	263.8	63.8
Liabilities	666.2	565.2	475.3	756.6
Average full-time equivalent staff	498	495	572	645

* The H+H Group's consolidated profit before tax, management fee etc.

Further information about the Group's segments is disclosed in note 3.



Outlook for 2012

EXPECTATIONS FOR 2012

An increase in earnings is anticipated in 2012, with EBITDA for continuing operations in the region of DKK 110-140 million before special items.

Free cash flow is expected to be positive in the region DKK 0-20 million before disposal of assets.

Total investments are expected to be in the region of DKK 50 million.

These expectations for H+H's financial performance in 2012 are based on the following specific assumptions:

- The increased financial turmoil does not result in falling sales relative to 2011, and average selling prices generally track or exceed inflation in all markets.
- Contracts are signed with new and existing customers to support revenue expectations, and no impairment losses or restructuring costs are incurred.
- Exchange rates hold around their mid-March 2012 levels, primarily for GBP, EUR, PLN, RUB and CZK.
- Energy and raw material prices rise only in line with inflation from their mid-March 2012 levels.

ABOUT THE OUTLOOK FOR 2012

The expectations for H+H's financial performance are based on some general assumptions.

Management believes that the most significant assumptions underlying H+H's expectations relate to:

- Sales volumes and product mix
- Price competition in many of H+H's markets
- General economic developments
- Developments in the market for building materials
- Exchange rates
- Distribution factors
- Weather conditions.

Management's expectations are associated with considerable uncertainty. No assurance can therefore be given that the assumptions on which the financial expectations are based will hold.

H+H International A/S is only obliged to update and adjust the expectations presented where so required by Danish legislation, including the Danish Securities Trading Act, or the rules for issuers on NASDAQ OMX Copenhagen.

Financial review

INCOME STATEMENT

Earnings

EBITDA was DKK 91.5 million, against a loss of DKK 4.8 million in 2010. EBITDA before special items was DKK 96.6 million.

These results are in line with the most recently announced outlook for continuing operations, which was EBITDA before special items in the region of DKK 95-100 million. The original outlook for the year was DKK 100-140 million. Although 2011 brought a substantial improvement, earnings are still not satisfactory.

Earnings were boosted by a general rise in prices for the company's products, but this was largely offset by much higher prices than expected for raw materials, primarily energy, and transport, which had a negative impact on earnings. A purchasing project has been launched to counter the rise in raw material and distribution costs, and is expected to have its full impact in 2012.

Earnings were boosted by the implementation of the first phase of H+H's Lean project, which brought savings of more than DKK 25 million, in line with expectations. The project will continue in 2012 and is expected to have roughly the same impact as in 2011. Finally, earnings were also boosted by stringent management of selling costs and administrative expenses, which fell by 18,1% from 2010, substantially more than originally anticipated.

Revenue

Revenue from continuing operations was DKK 1,309.8 million (2010: DKK 1,185.5 million), an increase of DKK 124.3 million or 10.5%. Changes in exchange rates had a negative impact on revenue of DKK 7.9 million. The increase in revenue was due to slightly higher volumes and generally rising selling prices. Particularly large price increases were achieved in Germany and Russia.

Sales were satisfactory in most markets, driven by substantial growth in the first half of the year, but there was more subdued growth in the second half as escalating economic turmoil slowed growth in sales volumes.

In the Western European segment, revenue grew by DKK 117.7 million, including a negative exchange rate effect of DKK 1.8 million. Sales volumes in Western Europe were substantially up on 2010, due mainly to growth in Germany, Denmark and Sweden, where revenue rose significantly, while there was relatively limited growth in volumes in the UK and Finland. H+H has maintained or increased its market shares. Average prices were somewhat higher than in 2010, with a substantial increase in Germany.

Prices rose slightly in the other markets, with the exception of the UK where prices fell slightly, due mainly to changes in customer and product mix.

In the Eastern European segment, revenue grew by DKK 6.6 million, including a negative exchange rate effect of DKK 6.1 million. Sales volumes in Eastern Europe were up on 2010, with higher sales in Russia and the Czech Republic but lower sales in Poland. The decrease in Poland was due to a slight contraction of internal sales to the Baltic States, Slovakia and Ukraine.

Production costs

Total production costs were higher in 2011 than in 2010, due primarily to larger production volumes in response to increased sales. Prices for raw materials, primarily energy, and transport rose much further than expected, leading to higher direct production costs but were partly offset by cost savings achieved by improvements in the production due to the Lean programme.

A wide range of cost savings was made in production during the year as part of H+H's Excellence programme, with the result that average unit production cost was maintained at the same level as in 2010, despite significant price increases for raw materials and energy. With a continued focus on the Excellence programme, it is expected that the average unit production cost will remain largely unchanged also in 2012, despite increasing input costs.

Other external expenses

Other external expenses were 17.0% lower than in 2010 due to stringent management of selling costs and administrative expenses. The number of full-time employees in sales and administration was reduced by 31 gross, relative to 2010.

Depreciation, amortisation, impairment losses and special items

Depreciation and amortisation for the year totalled DKK 101.9 million.

H+H did not recognise any impairment losses in 2011, whereas in 2010 it was decided to write down the Russian factory by DKK 120 million due to lower capacity utilisation and lower prices than originally anticipated.

2011 brought special items of DKK 5.1 million, consisting primarily of legal fees for dealings with the competition authorities in connection with Xella International Holdings S.à.r.l.'s merger notification targeting H+H International A/S, extra energy tax

related to 2008 and 2009 and severance costs, compared with DKK 140.3 million in 2010.

Special items		
Amounts in DKK million	2011	2010
Impairment losses on non-current assets and provision for onerous contract	-	121.7
Costs in connection with competition case	1.5	-
Additional energy tax related to 2008 and 2009	2.4	-
Termination costs	1.7	13.4
Shutdown expenses in Norway, Ukraine and the Baltic States	-	5.2
Other items	(0.5)	-
Total	5.1	140.3

In the income statement, special items in 2011 have been recognised under other operating expenses (DKK 5.1 million).

Financial income and expenses

Financial income and expenses amounted to a net charge of DKK 42.3 million, up DKK 13.2 million on 2010. The rise is due to exchange gains which increased financial income by DKK 13.9 million in 2010. Interest expenses fell slightly in 2011 compared with 2010.

Tax

A negative figure of DKK 16.1 million has been recognised for 2011 (2010: negative by DKK 11.6 million).

Discontinuing operations and assets held for sale

As part of its continued focus on core business and a desire to reduce interest-bearing debt, H+H aims to sell some of its non-strategic assets in the first half of 2012. Various plots of land in Poland, a sand pit in Germany, an office property in Denmark, a plot of land in the UK and unused production equipment were therefore readied for sale during the second quarter of 2011 and classified as assets held for sale.

A conditional purchase agreement for the office property in Denmark was signed in the third quarter of 2011. The proceeds from the sale will be around DKK 7.5 million and will be received from the buyer in the first quarter of 2012 in connection with the handover of the property, which is being sold for more than DKK 1.8 million above its book value, of which DKK 0.5 million was recognised in 2011.

As part of H+H's continued focus on core business, the Board of Directors decided in the third quarter of 2011 to divest the

Finnish subsidiary Jämerä-kivitalot Oy, which designs and sells the construction of aircrete houses for private individuals. As the company has been loss-making for a number of years, the divestment will have a positive effect on H+H's future earnings. The divestment is under way and is expected to be completed by the end of the third quarter of 2012. Jämerä-kivitalot Oy has therefore been reclassified as a discontinuing operation.

BALANCE SHEET

Investments in property, plant and equipment and intangible assets

Investments totalled DKK 36.9 million in 2011 (2010: DKK 35.2 million) and consisted of investments in maintenance and the rollout of a new ERP system in the Group.

As in 2010, no financing costs or own costs were capitalised.

Financing

Free cash flow from continuing operations was positive in 2011 at DKK 10.8 million, which is in line with the most recently announced expectation of around DKK 10-20 million. The original expectation for the year was in the region of DKK 20-60 million.

Net interest-bearing debt amounted to DKK 628.5 million at the end of the year (2010: DKK 613.6 million), an increase of DKK 14.9 million. If exchange rates had remained constant throughout the year, net interest-bearing debt would have been DKK 613.5 million.

Cash flow from operating activities was DKK 43 million (2010: DKK 46 million). EBITDA contributed DKK 120.3 million (2010: DKK 85.8 million), including an improvement in working capital of DKK 29.0 million (2010: DKK 90.7 million).

Cash flow from investing activities totalled DKK 32.2 million (2010: DKK 31.8 million), including proceeds of DKK 4.7 million (2010: DKK 3.3 million) from the disposal of non-current assets.

Equity

H+H's equity fell by DKK 172.1 million to DKK 553.5 million during the year. With total assets of DKK 1,580.7 million, this gives an equity ratio of 35%.

The loss for the year reduced equity by DKK 117.5 million, while foreign exchange adjustments of investments in subsidiaries etc. decreased equity by DKK 55.4 million.

Changes in equity

Amounts in DKK million	2011	2010
Balance at 1 January	725.6	958.2
Profit for the year	(117.5)	(270.5)
Treasury shares, net	0	0
Foreign exchange adjustments in subsidiaries	(55.4)	37.7
Other adjustments	0.8	0.2
Balance at 31 December	553.5	725.6

Dividend

The Board of Directors will recommend at the annual general meeting on 18 April 2012 that no dividend be paid for the 2011 financial year.



Strategy

Vision

To be market leader and preferred supplier of innovative, sustainable and cost-efficient aircrete building solutions.

H+H will complete its turnaround and operate mainly in markets where it can obtain a number 1 or 2 market position.

Mission

To supply value-added and innovative aircrete solutions for buildings in Europe in profitable partnerships with distributors, contractors and housebuilders.

H+H's business model is focused on increasing sales and market share in existing markets through superior products as well as a well-defined sales and marketing process to secure profit across the value chain.

Long-term financial objectives 2012-2014

- Annual revenue growth of 4-8%
- EBITDA margin of minimum 13%
- ROIC of 10%
- Solvency ratio of min. 30%
- Net debt max. 2 times EBITDA.

BACKGROUND

Expected market developments

The European economy's recovery has run out of steam as the eurozone crisis and stalling global recovery take their toll.

Forecasts for GDP growth were revised downwards during 2011, and even with these weaker projections the risk remains on the downside. This risk is due to a higher level of uncertainty than in mid-2011 and centres around the ability of the eurozone to solve the debt crisis. Consumers and investors are aware of this uncertainty and are adjusting their spending and investment patterns accordingly.

Construction levels in some countries, including Poland, the Czech Republic, Finland and the UK, are at such low levels that growth is still to be expected, and even in the event of a recession it is hard to see these markets declining. In other countries, such as Germany, the Netherlands, Denmark and Sweden, where there has been a recovery, the markets are expected to be fairly flat, and in the event of a new recession it must be expected that prices and volumes will show a downward trend. Significant

growth is expected in Russia due to continued domestic growth and the drive to increase standards of living.

Overall market trends:

- Increased environmental focus – avoiding heat loss in buildings.
- Increased focus on building speed and working environment.
- Increased disposable income in Poland, the Czech Republic, Slovakia and Russia, and drive towards more single-family housing.
- Significant deficit of new homes relative to demographic changes (new households and geographical shifts) in mature markets such as Germany and the UK.

Market position today

As a consequence of the financial crisis, H+H discontinued its activities in Ukraine, the Baltic States and Norway, leaving only Slovakia and the Netherlands/Belgium as additional markets supporting volumes at its plants in the Czech Republic and Germany, respectively.

In its current markets, H+H is maintaining a high market share and is considered among the top three suppliers.

Since early 2011 there has been a specific focus on raising prices in all markets, and significant improvements have been achieved.

H+H's capacity utilisation is rising as a result of increasing volumes, which has generally had a positive impact on earnings and, in some markets, selling prices, but with variations between countries.

In Germany (Denmark, Sweden, Netherlands/Belgium), H+H generally operated at high capacity throughout 2011, and capacity in Russia was under severe strain from June onwards. In Finland, Poland, the Czech Republic and the UK, however, there is still overcapacity.

In all markets except the UK and Poland, H+H has managed over the years to introduce 100% thin-joint technology for masonry blocks, bringing significant improvements in building speed and working environment.

Reinforced elements account for an important part of sales in Finland, Sweden, Denmark and Germany and are an integrated part of H+H's system sales.

GROUP STRATEGY

The strategic plan covers the period from 2012 up to and including 2014 (the strategic planning period), during which time the aim is to deliver satisfactory financial results and reduce H+H's debt levels.

In the light of H+H's current financial performance and debt levels, the following overall guiding principles apply to the planning period:

- To focus on the potential in existing geographical markets.
- To have sufficient production capacity to support planned growth.
- To remain focused on the aircrete market only.
- To build on existing technology and develop solutions based on this.
- To grow organically rather than through mergers and acquisitions.

Within these guiding principles, H+H should be able to grow the top line by 30% with its existing production capacity, assuming geographically balanced market growth.

H+H has defined three strategic goals that need to be fulfilled within the time span of the strategic plan:

- **Become or remain number 1 or 2 in all chosen geographical markets.** H+H will position itself as a full-fledged branded aircrete supplier.
- **Be financially independent.** Long-term growth for H+H will require H+H to be able to reinvest cash from operations in market expansion and development of new technology. Therefore net debt should not exceed EBITDA by more than a factor of 2 in 2014.
- **Achieve capacity utilisation above 75%.** Capacity utilisation below 75% at any plant is loss-making, and it would be more desirable to consolidate production capacity if this is not achieved.

Actions to fulfil these goals are organised into five strategic focus areas:

- **Sales and marketing approach.** Especially in continental Europe, markets can be moved in a common direction, but they are at different stages of development. A uniform and unique sales and marketing approach is mandated to avoid commoditisation of H+H's products and secure optimal price levels. This is expected to be finalised within the strategic planning period.
- **Innovation.** H+H has a history as an innovator and possesses high levels of technical expertise and know-how. H+H will further improve the processes that ensure that it can identify, prioritise and broadly utilise the best new ideas in its organisation. The aim is to launch one to two new products per year.
- **Operational excellence.** H+H has started a journey to make operational excellence part of its culture and a way of doing business which will continue and include manufacturing, sourcing and administration. This will enable H+H to reduce production costs by around 2% annually before inflation.
- **Funding.** Due to the debt situation, funding is key in the short term. H+H will continue its drive to sell off non-core assets, and take other actions to reduce its level of debt. The target is to have a maximum net debt of 2 times EBITDA by the end of the strategic planning period.
- **Organisation and people.** The strong drive for a common sales and marketing approach, as well as excellence and sharing of best practices, mandates a change in the organisation to improve cross-border integration. At the same time, a new approach to attract and retain skilled people needs to be initiated.

VALUE PROPOSITION

The *Build with ease* approach is unique in its markets and is driving value for H+H:

- H+H offers a fully integrated portfolio of all relevant aircrete products.
- H+H builds partnerships. Builders' merchants are important as sales drivers for the bulk of the business, and H+H should offer them sales support.

- H+H acts as advisor and intermediary between contractors, developers, housebuilders, installers and architects and seeks to drive the sales process for large orders/contracts.
- Merchant loyalty is stimulated through H+H's invoicing policy for housebuilders and contractors.
- Product innovation focusing on building speed, physical and working environment, and lowest possible total cost for the homeowner.

Local adaptation will depend on differences in building traditions and sophistication as well as differences in sales and distribution structure.

Risk management

H+H works systematically on identifying and evaluating risks related to its business activities. Where feasible and appropriate, action to counter or limit the effects of these risks is taken on an ongoing basis.

H+H's activities focus on the manufacture and sale of aircrete products in Western and Eastern Europe. Sales relate primarily to in-house production and only to a lesser extent to goods for resale. Products are sold mainly to local markets close to the manufacturing facilities and normally only transported over long distances to markets where there is no locally produced aircrete.

MARKET RISKS

Market conditions and demand

With significant operational gearing in the form of heavy capital expenditure and fixed costs, fluctuations in demand have a noticeable effect on H+H's financial performance. In the last few years, H+H's gross margin has been around 21% of revenue. All other things being equal, if revenue were to fall by 100, this would have an immediate adverse effect of 21 on earnings before tax, before any adjustments to staff and fixed costs.

H+H's sales go predominantly to new dense low-rise housing, making H+H particularly vulnerable to fluctuations in the level of activity in this building segment. H+H is striving to expand the market for aircrete to include buildings other than dense low-rise housing to a greater extent, such as apartments and commercial buildings.

A large proportion of sales are made via annual framework agreements with housebuilders and builders' merchants. Some sales are made without framework agreements being entered into. Selling prices for sales not subject to framework agreements can be highly volatile. Framework agreements typically include price levels and indications of anticipated demand. Actual sales depend on the level of building activity achieved by housebuilders and the actual sales recorded by builders' merchants. Order books in H+H's largest markets are very modest. Sales visibility beyond one to two weeks ahead is consequently poor and primarily based on reports from customers and on various external indicators such as trends in building permits and mortgage approvals. Visibility is further restricted by the fact that H+H's products are used mainly in the initial phases of the building process. A boom or a slowdown in construction activity is therefore rapidly reflected in H+H's sales.

Developments in the global economy, and in particular the construction sector, have a significant direct and indirect impact

on H+H. Developments in recent years have led to sharply rising unemployment, a growing number of business failures, and falling consumer spending, and it has become considerably more difficult to access finance for newbuilding and refurbishment. The effect is global and has hit many countries, sectors and industries, including the primary geographical markets to which most of the Group's revenue relates.

If the economic turmoil that erupted in the second half of 2011 evolves into a full-blown credit crisis where mortgage availability for residential construction dries up as it did in 2008, this will have a major impact on H+H's sales volumes, albeit not to anywhere near the same degree as in 2008 and 2009 because the markets have yet to recover from the previous economic downturn.

H+H focuses on keeping its production plant in 24-hour operation, with the option of reducing the number of shifts in response to a downturn in demand. Where possible, non-core activities such as logistics are outsourced with relatively short notice periods.

Competition

H+H's aircrete products and building systems are sold mainly in the local markets in which the factories are located. H+H's competitors are other local manufacturers of aircrete products and manufacturers of other products that can be used in competition with aircrete.

H+H has built a strong market position relative to other aircrete manufacturers and is known as a supplier of high-quality products. This position has been achieved via strong, locally based sales organisations. H+H generally differentiates itself from other aircrete manufacturers by being more solution-oriented. Through dialogue with its customers, H+H offers solutions that have advantages for customers in the form of lower total costs and/or shorter building times. H+H's factories manufacture standard products, and it is important that the factories operate with high capacity utilisation, giving the lowest possible unit costs. This is paramount in order to ensure that H+H can always compete on price in all markets.

The competitive climate has become increasingly fierce during the economic crisis and has generally led to lower prices for H+H's products, although prices improved in 2011.

The construction industry is relatively conservative, which means that aircrete's market share relative to other types of building

material is reasonably stable, although minor shifts occur on an ongoing basis.

H+H strives continuously to raise awareness of its products and the advantages they have over other building systems. H+H believes that aircrete's properties are so unique that aircrete will continue to enjoy a strong position in future.

Raw material supplies and prices

The principal raw materials used in the production of aircrete products are cement, lime, water and sand or pulverised fuel ash, as well as reinforcing steel, along with considerable energy consumption during production. Transport costs also account for a substantial proportion of product costs. In the event of significant increases in the prices of the raw materials and energy used in production or in transport costs, and H+H being unable to offset this by raising the prices of its products, this may have an adverse impact on H+H's profitability.

H+H has historically experienced considerable volatility in raw material, energy and transport costs, including in 2011, and is consequently exposed to price fluctuations.

Cement costs account for roughly one-third of total raw material consumption, excluding energy, and around 10-12% of revenue.

Costs for energy consumption in production correspond to around 10-12% of revenue. The production of steam for the autoclaving process accounts for a substantial part of energy consumption. The primary energy sources are gas and electricity. H+H strives continuously to reduce energy consumption.

FINANCIAL RISKS

Foreign exchange

H+H presents its consolidated financial statements in Danish kroner. Most of the Group's products are produced and sold abroad. Sales in markets outside Denmark accounted for more than 90% of consolidated revenue in the 2011 financial year, with Germany, the UK and Poland as the largest markets.

H+H's net inflows are denominated mainly in EUR, GBP and PLN, and its principal exposure is currently related to these currencies. The main net exposure in terms of outflows is also to EUR, GBP and PLN. In addition, H+H is increasingly exposed to CZK and RUB. H+H has considerable net investments in subsidiaries abroad, including in non-euro countries, resulting in a higher currency exposure. The associated foreign exchange adjustments are taken to consolidated equity.

H+H mainly has net investments in the following currencies: EUR, GBP, PLN, CZK and RUB.

H+H does not engage in currency speculation. The individual H+H companies are not authorised to take positions in foreign currencies unless commercially warranted, and commercial positions above a limited ceiling must be hedged. Conversely, it is H+H's policy to accept unhedged currency exposure to subsidiaries and their results, although such risk is minimised with a view to financial strength and taxes.

H+H's currency risks were not hedged with financial instruments at the balance sheet date, with the exception of a small SEK/EUR hedge covering the Swedish subsidiary's purchases of goods in Germany.

Capital structure and cash flow

In 2005-2009, H+H made major investments in Eastern Europe in particular, and this led to a substantial increase in net interest-bearing debt, especially in 2008-2009.

In future, H+H will operate with a considerable level of debt financing. At the end of 2011, H+H's net interest-bearing debt stood at DKK 628.5 million, up DKK 14.9 million from the end of 2010.

H+H has a committed loan agreement with Danske Bank A/S corresponding to around DKK 800 million, which is committed until 15 February 2015, and in addition to this a short-term DKK 50 million uncommitted credit line.

The new strategic plan of H+H has enabled the company to extend its committed credit facility with Danske Bank A/S until 15 February 2015. The associated financial covenants have been adjusted at the same time.

H+H will continue to be dependent on debt financing in the coming years. Maintenance of the committed credit facilities is conditional upon compliance with a number of financial covenants. If earnings suffer because of the impacts described under 'Market risks' and 'Financial risks', this could result in a breach of the financial covenants. Financial covenants are described in note 25. The loan agreements can also be terminated by Danske Bank A/S without notice if investors other than Scandinavian institutional investors (defined in the agreements as Danish, Swedish, Norwegian and Finnish financial institutions operating in financial markets and subject to public supervision) individually or through coordinated collaboration gain control

of more than one-third of the shares or more than one-third of the total number of voting rights carried by the shares in H+H International A/S.

The effective interest rate for H+H in 2011 was around 5.2% (2010: 5.6%), partly reflecting the interest rate levels of the individual currencies. The effective interest rate for 2012 is expected to be slightly lower than in 2011.

Interest rates

With the expected development in net interest-bearing debt, a 1 percentage point change in the interest rate would affect earnings before tax in 2012 by around DKK 6 million. H+H International A/S's interest-bearing financial assets consist mainly of loans to subsidiaries, while its interest-bearing liabilities consist of bank overdrafts.

Trade credit

H+H invoices the majority of its sales through a number of builders' merchants across more than a dozen countries. This reduces the Group's credit exposure to contractors and housebuilders, but consequently increases its credit exposure to builders' merchants. In keeping with H+H's credit policy, all major customers are credit-rated internally on a regular basis, but H+H is still exposed to the risk of bad debts. H+H insures its largest trade receivables but not smaller ones.

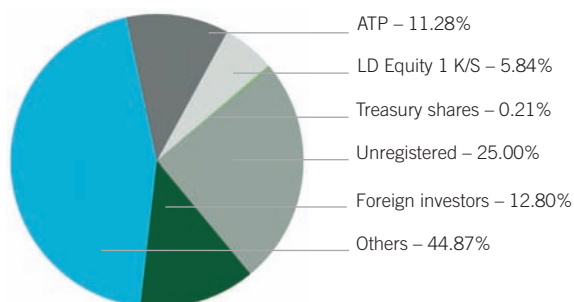
Investor relations

SHARE CAPITAL AND SHAREHOLDERS

H+H International A/S has share capital with a nominal value of DKK 490,500,000 and carrying a total of 98,100,000 votes, divided into 9,810,000 shares each with a nominal value of DKK 50 and carrying 10 votes.

As at 1 January 2012, H+H International A/S had 2,993 registered shareholders (corresponding to 75% of the share capital), including 159 foreign shareholders, and the company held 20,489 treasury shares.

Members of H+H International A/S's Board of Directors and Executive Board are included in the company's insider register. These persons and persons connected to them are only allowed to buy and sell shares in the company during the four weeks immediately after each preliminary announcement of financial statements. If in possession of inside information, such persons are prohibited from trading even during this period for as long as this inside information exists. The company may not buy or sell its own shares during the three-week period immediately preceding each preliminary announcement of financial statements and the company may not trade whilst in possession of inside information.



CAPITAL STRUCTURE

The Board of Directors and Executive Board regularly evaluate the capital structure on the basis of expected cash flows with a view to ensuring an appropriate balance between adequate future financial flexibility and a reasonable return to shareholders.

H+H International A/S had an equity ratio of 35% at the end of 2011, compared with 43.9% at the end of 2010. The company's interest-bearing debt totalled DKK 628.5 million at the end of 2011, compared with DKK 613.6 million at the end of 2010.

In November 2011, the Board of Directors of H+H International A/S discussed the company's capital structure and concluded that the current structure is acceptable, even though reducing

gearing to a level of maximum 2 times EBITDA is part of H+H's strategy. The Board of Directors regularly assesses the company's capital structure in the light of its earnings, debt, loan covenants etc.

SHARES

H+H International A/S's shares are listed on NASDAQ OMX Copenhagen (ticker code HH, ISIN DK0015202451). The company has a single share class, and the Board of Directors is of the opinion that the shares' listing increases the company's options when it comes to raising new capital.

The company's share price fell by around 20% to DKK 42 per DKK 50 share in 2011. By way of comparison, the OMXC20 index lost around 15%.

Turnover in 2011 was 3,370,560 shares at a total price of DKK 176.5 million.

DIVIDENDS

All major investment projects were completed in 2009, and investments were kept at low levels in 2010 and 2011. In the current trading environment, H+H expects investments of around DKK 50 million in 2012. However, H+H International A/S's net interest-bearing debt is still relatively high compared with H+H's current revenue and earnings levels, and it is still uncertain when and how quickly these will return to stable growth.

Given the loss before tax for 2011 of DKK 117.5 million and given the above uncertainty with respect to H+H's future earnings, the Board of Directors will recommend at the annual general meeting on 18 April 2012 that no dividend be paid for the 2011 financial year. It should also be noted that, under the terms of H+H International A/S's loan agreements with Danske Bank A/S, the Board of Directors is subject to an obligation to the effect that any proposed resolution concerning the distribution of dividends for a given financial year must not exceed 50% of the company's profit after tax in the financial year in question.

Despite recent years' negative results as a consequence of the economic crisis, it is still a natural overall objective for H+H International A/S to generate a competitive return for its shareholders in the form of share price appreciation and the distribution of dividends and/or reduction of share capital through the buyback and cancellation of shares in the company.

INVESTOR RELATIONS POLICY

The purpose of H+H International A/S's financial communications and other IR activities is to seek a valuation of the company's shares that constantly reflects H+H's current situation and expectations and to achieve adequate liquidity in trading in the shares.

All communications reflect the requirements that the information must be open, honest and timely. The main financial communications are via the annual report, interim financial reports and other company announcements. H+H International A/S is also in regular dialogue with professional and private investors, analysts and the business press. This dialogue takes the form of individual presentations to major investors or presentations to groups of investors. The company is not normally available for dialogue about financial matters in the three-week period leading up to the presentation of financial statements.

Relevant investor information is available on the company's website www.HplusH.com. Enquiries concerning IR issues should be addressed to CFO Niels Eldrup Meidahl at shareholder@HplusH.com or by telephone on +45 35 27 02 00.

ANNUAL GENERAL MEETING 2012

The annual general meeting of H+H International A/S will be held on 18 April 2012 at 2 pm at Charlottelhaven, Hjørringgade 12C, 2100 Copenhagen Ø, Denmark. Notice of the meeting will be sent by e-mail to registered shareholders whose e-mail address is entered in the company's register of shareholders, and by post to registered shareholders who have asked the company in writing to notify them by post. The notice will also be published via a company announcement, on the company's website www.HplusH.com and on the Danish Business Authority's website www.cvr.dk.

Shareholders wishing to have their shares registered in their own name should contact their own depository bank or advise VP Securities A/S, Weidekampsgade 14, P.O. Box 4040, 2300 Copenhagen S, Denmark. Shareholders who are already registered but wish to enter or amend an e-mail address in order to

receive the company's notices of general meeting by e-mail can do so via the H+H Shareholder Portal on the company's website at www.HplusH.com/shareholder_portal or by contacting the company's registrar Computershare A/S, Kongevejen 418, 2840 Holte, Denmark.

Financial calendar 2012

15 March 2012	Annual Report 2011
18 April 2012	Annual general meeting
24 May 2012	Interim financial report Q1 2012
23 August 2012	Interim financial report H1 2012
21 November 2012	Interim financial report Q3 2012

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Published announcements 2011 and up to and including 14 March 2012*

14 March 2012	The German competition authority prohibits a merger between Xella International Holdings S.à.r.l. and H+H International A/S
5 March 2012	Change of Group management
27 February 2012	Extension of the investigation period for Xella's merger notification targeting H+H
13 January 2012	Extension of the investigation period for Xella's merger notification targeting H+H
22 November 2011	Interim financial report Q3 2011
28 October 2011	Extension of the investigation period for Xella's merger notification targeting H+H
24 August 2011	Interim financial report H1 2011
1 July 2011	Xella International S.à.r.l. has withdrawn its merger notification with the Commission – the merger notification submitted to the federal cartel office in German has not been withdrawn
1 July 2011	Preliminary assessment by the federal cartel office in Germany of Xella International Holdings S.à.r.l.'s merger notification targeting H+H International A/S
26 May 2011	Interim financial report Q1 2011
23 May 2011	Share-based incentive programme for the Executive Board and key employees
14 April 2011	Articles of Association for H+H International A/S
14 April 2011	Business transacted at annual general meeting and first meeting of the Board of Directors
21 March 2011	Notice of annual general meeting of H+H International A/S
10 March 2011	Annual Report 2010
31 January 2011	New CEO of H+H International A/S
28 January 2011	Letter to the European Commission regarding Xella's announcement
17 January 2011	Leakage of Xella's intention to make a takeover bid

* Other company announcements concerning transactions by key management personnel and their connected persons involving H+H International A/S's shares and securities related to these are not included. All announcements can be viewed at www.HplusH.com.



Corporate governance

CORPORATE GOVERNANCE

As a company listed on NASDAQ OMX Copenhagen, H+H International A/S is subject to the rules for issuers of shares on that exchange, including the obligation to comply with the *Recommendations on Corporate Governance* of the Committee on Corporate Governance in Denmark or explain why specific recommendations are not complied with. The recommendations can be viewed on the Committee's website www.corporategovernance.dk.

In accordance with these recommendations, H+H International A/S reports the degree to which the company complied with the recommendations in 2011. The report takes the form of a table and comments relative to each individual recommendation. The corporate governance report for 2011 forms part of the company's *Statutory annual corporate governance statement*, cf. section 107b of the Danish Financial Statements Act, which can be viewed on the company's website at www.HplusH.com/governance_statement.

The full statutory statement forms part of management's review in the annual report for 2011. Besides the report on the company's corporate governance practices, the statutory statement includes two sections, 'Composition and function of management bodies' and 'Internal control and risk management systems for the financial reporting process', which are covered by the auditors' report in the annual report for 2011, whereas the other information in the statutory statement is not covered by the auditors' report.

The Board of Directors is of the opinion that H+H International A/S essentially complies with the *Recommendations on Corporate Governance* as last revised in August 2011. However, the Board of Directors is aware that continued good corporate governance requires constant alignment of management and company practices, processes etc. in relation to the company's activities and the expectations of external stakeholders such as shareholders, customers, suppliers and society in general.

Corporate social responsibility

CORPORATE SOCIAL RESPONSIBILITY (CSR)

H+H develops, manufactures and sells aircrete products for construction projects in Western and Eastern Europe and is responsible for doing this in a sustainable manner – from a business, work and environmental point of view. This responsibility is an integral part of H+H's activities.

Aircrete is an extremely eco-friendly building material, not only because of its excellent thermal insulation properties but also because it is easy on the environment during the production process. Most of the materials used in the production of aircrete, such as lime and sand, are readily available, non-scarce natural resources, and pulverised fuel ash is used as a raw material in some countries. This ash is a residual product from power generation at coal-fired power stations. At the end of their life cycle, aircrete products can be reused, for example as road base.

CSR POLICIES

H+H has a long tradition of sound ethical conduct and ensuring good health & safety and sustainability in its operations. As such, H+H has worked on CSR for many years in practice, despite not having formal, consistent CSR policies across the Group's companies. Action has been taken individually in the various countries on the basis of local legislation, trends and, to some extent, traditions.

In 2011, H+H began preparing and implementing general Group-wide CSR policies, initially in the areas of business ethics and supply chain management. These policies will gradually be developed and extended, and policies on the environment and health & safety will follow.

H+H's work on these policies builds on the guiding principles for the CSR focus areas of environment, health & safety and business ethics presented below. Pursuant to section 99a of the Danish Financial Statements Act, H+H International A/S also publishes a more detailed annual statement on its CSR policies, actions taken to implement these policies and the results of these actions. The 2011 statement forms part of management's review and can be found on the company's website at www.HplusH.com/csr_statement.

Environment

H+H is to work actively to reduce the environmental impact of its manufacture of aircrete, and H+H's production and products are always to comply with applicable requirements and standards.

H+H is to work actively to increase the sustainability of its business in the production, transport and recycling of its products.

H+H's product development is to focus on further improving aircrete's positive environmental characteristics.

In 2011, a number of actions have been taken to ensure a reduced energy consumption thereby contributing to keeping the average energy consumption per m³ aircrete produced below 1 GJ.

Health & safety

H+H is to be a safe place to work and is always to comply with statutory health & safety requirements wherever it does business.

H+H is to be an attractive and exciting place to work and able to attract skilled employees by offering competitive terms of employment and opportunities for personal and professional development.

H+H supports and respects internationally recognised human rights as set out in the Universal Declaration of Human Rights, including but not limited to:

- Freedom of organisation
- Equal opportunities regardless of sex, religion, colour, ethnic or national origin and political convictions.

Business ethics

H+H is to comply as far as possible with generally accepted principles of good corporate governance, and H+H International A/S is to publish an annual corporate governance report on its website www.HplusH.com.

H+H is not to participate directly or indirectly in corruption, bribery or extortion of any kind.

H+H is to aspire to compliance with certain CSR-related minimum requirements on the part of all of its suppliers.

In 2012 H+H started to introduce a Group-wide policy on supply chain management to be included in all new supply contracts as a condition for suppliers to do business with H+H.

Management

The Board of Directors held seven meetings in 2011. Remuneration of the individual members of the Board of Directors and the Executive Board for 2011 is presented in note 4.

During the winter of 2011/2012, the Board of Directors undertook a self-evaluation based on input from each member's replies to a questionnaire and a subsequent one-to-one session with the Chairman (in the Chairman's case, with the Deputy Chairman). The results of this evaluation were discussed by the Board of Directors at a board meeting. At the meeting the results of the evaluation were considered in the light of the Board of Directors' competence profile (as published on the company's website), among other things, and they will be used together with recommendations from the Nomination Committee to decide who to nominate as candidates for the Board of Directors at the company's annual general meeting on 18 April 2012. The result of the evaluation showed the number of meetings, the agenda, the time allocation and the board material and information provided to be adequate. The board members work well together, and collectively they represent the relevant competence areas. Individually, the members are all found to be competent, and they all have a high attendance and act in an independent manner. The cooperation between the Board of Directors and the Executive Board is found to be honest, open, timely and well-functioning.

BOARD OF DIRECTORS

Anders C Karlsson (61)

Industrial advisor.

- Chairman. Joined the Board of Directors in 2005 and since re-elected. Chairman since April 2006. Member of the Audit Committee, Nomination Committee (chairman) and Remuneration Committee (chairman).
- Management experience in international companies in the building materials and contracting sector, including strategy development, and long-standing experience in international board work.
- Independent as defined by the Committee on Corporate Governance.
- Indirectly holds 4,500 H+H shares via his company Lasabotte AB, and there have been no changes in the holding in 2011.

Management positions and directorships

- Chairman of the boards of Inwido AB (Sweden), AB Gustaf Kähr (Sweden) and WSP Europe AB (Sweden).
- Member of the boards of Lindab International AB (Sweden) and WSP Group plc (UK).
- Owner of and member of the boards of Anders C. Management Sarl (France) and Lasabotte AB (Sweden).

Asbjørn Berge (56)

Professional board member.

- Deputy Chairman. Joined the Board of Directors in 2010. Member of the Audit Committee (chairman), Nomination Committee and Remuneration Committee.
- Experience with management of production companies within the building materials sector and the building industry, and long-standing experience in board work.
- Management experience in international companies in the building materials and contracting sector, including strategy development, and long-standing experience in international board work.
- Independent as defined by the Committee on Corporate Governance.
- Holds 6,000 H+H shares, and there have been no changes in the holding in 2011.

Management positions and directorships

- Chairman of the boards of Carnad A/S, Da'core Holding A/S and one subsidiary, Due Plast Holding A/S and one subsidiary, KA. Interiør Holding A/S and one subsidiary.
- Deputy chairman of Palsgaard Træ A/S and member of the board of five subsidiaries.
- Member of the boards and director of Berge Invest ApS and Industri Invest Herning A/S.
- Member of the boards of Bizzorp Holding ApS and two subsidiaries, C.C. Contractor A/S, Dansk Vækstkapital, Ejendoms-selskabet Berlin og Hamborg A/S, Freja Transport & Logistics A/S, Godt Smil Holding ApS, Junckers Industrier A/S, Lilleheden A/S and two subsidiaries, Plus A/S, FM-Søkjær Holding 1 A/S and Træfonden.

Stewart A Baseley (53)

Executive Chairman, Home Builders Federation (UK).

- Joined the Board of Directors in 2010. Member of the Remuneration Committee.
- Experience with the international housebuilding industry and the developer industry, particularly in the UK, as well as international management experience.
- Independent as defined by the Committee on Corporate Governance.
- Holds 10,000 H+H shares, all acquired in 2011.

Management positions and directorships

- Member of the boards of Banner Homes Group PLC (UK), four subsidiaries of Home Builders Federation (UK), HBF Insurance PCC Limited (Guernsey), the National House-Building Council (UK), Akomex Sp. z o.o. (Poland) and MEDI-system Sp. z o.o. (Poland)..
- Senior Advisor in regard to Central and Eastern Europe for Highlander Partners L.P. (USA).
- Chairman of Habitat for Humanity Great Britain (UK).
- Patron of Children with Special Needs Foundation (UK).

BOARD OF DIRECTORS

Pierre-Yves Jullien (61)

President and CEO, Hempel A/S.

- Joined the Board of Directors in 2010. Member of the Audit Committee.
- Experience in management of a major global production company, including turnarounds and efficiency improvement as well as B-t-B sales.
- Independent as defined by the Committee on Corporate Governance.

Management positions and directorships

- Managing director, chairman or member of the boards of 12 companies in the Hempel Group.

Henrik Lind (64)

Partner in the law firm Gorrissen Federspiel.

- Joined the Board of Directors in 1987 and since re-elected. Member of the Nomination Committee.
- Experience in international transactions and financing as well as board work and insight into stock exchange and other commercial law issues.
- Not independent as defined by the Committee on Corporate Governance – has been member of the Board of Directors longer than the recommended maximum 12-year period.

Management positions and directorships

- Deputy chairman of the Association of Danish Law Firms (Danske Advokater).

EXECUTIVE BOARD

Michael T Andersen (50)

CEO.

- CEO since 4 April 2011.
- In the period 2004-2011 Michael T Andersen was employed by the Swedish industrial group Trelleborg AB. From 2008 to 2011 he was President of a global business unit consisting of 10 subsidiaries in Europe, the USA and Asia. From 2004 to 2008 Michael T Andersen was Managing Director of Trelleborg Sealing Solutions Helsingør A/S. From 1997 to 2004 he worked for Alto International A/S (now part of the Nilfisk Group) in executive positions within sales, marketing and general management. In the period 1989-1997 Michael T Andersen held various management positions in the publicly listed companies Incentive A/S and H. Lundbeck A/S.
- Michael T Andersen holds an MSc (Engineering) and a B.Comm. (Accounting).
- Holds 4,974 H+H shares, all acquired in 2011 and hereof 4,489 as part of a matching share programme.

Management positions and directorships

- Member of the board of KP Komponenter A/S.

Niels Eldrup Meidahl (39)

CFO.

- CFO since 2009 and member of the Executive Board since 2010.
- Niels Eldrup Meidahl came to H+H from a position as CFO of DSV Miljø A/S (2006-2009). In the period 2002-2006 Niels Eldrup Meidahl worked with investor relations, i.a. for Novozymes A/S, and in 2001-2002 he was CFO of Learning Lab Denmark. Prior to that he worked for Arthur Andersen as an accountant and tax advisor (1997-2001).
- Niels Eldrup Meidahl holds an LL M and an MSc (Business Administration and Auditing).
- Holds 2,532 H+H shares, all acquired in 2011 as part of a matching share programme.

Management positions and directorships

- Chairman of the board of SoundEar A/S.

OTHER SENIOR EXECUTIVES

Henrik Dietrichsen (40)

Senior Vice President.

- Senior Vice President and member of the management team since 2006. Henrik Dietrichsen is leaving on 30 June 2012.
- Henrik Dietrichsen has area responsibility for Germany, the Netherlands, Belgium, Denmark and Sweden (since 2008) and is also Managing Director of H+H Deutschland GmbH (since 2009).
- In the period 2006-2008 Henrik Dietrichsen was responsible for development and coordination of the H+H Group's sales and marketing activities. Before that he was Managing Director of H+H Danmark A/S (2003-2006) and Financial Controller of the H+H Group (2001-2003).
- Henrik Dietrichsen holds an MSc (Business Administration and Auditing).
- Holds 2,732 H+H shares, of which 2,462 were acquired in 2011 as part of a matching share programme.

Thomas Høi Terndrup-Larsen (47)

Senior Vice President.

- Senior Vice President of Production Technology and R&D and member of the management team since 2008.
- Thomas Høi Terndrup-Larsen came to H+H from a position as General Manager of Project Management, Project Division 1, FLSmidth A/S, and before that he served as Department Manager of Project Management, Project Division 1, FLSmidth A/S (2005-2008). Thomas Høi Terndrup-Larsen was Head of Operations (2001-2005) and served as Sales Manager (1998-2001) at FLSmidth Ltda. in Brazil. Prior to that he worked with FLSmidth A/S as sales engineer, interrupted only by postings as erection manager in Chile (1997-1998) and as sales engineer in China (1992-1994).
- Thomas Høi Terndrup-Larsen holds an MSc (Engineering).



Statement by the Executive Board and the Board of Directors

The Executive Board and the Board of Directors have today discussed and approved the annual report of H+H International A/S for the financial year 2011.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2011 and of the results of the Group's and the

company's operations and cash flows for the financial year 1 January – 31 December 2011.

In our opinion, the Management's review includes a fair review of the development in the parent company's and the Group's operations and financial conditions, the results for the year and the parent company's financial position, and the position as a whole for the entities included in the consolidated financial statements, as well as a description of the more significant risks and uncertainty factors that the parent company and the Group face.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 15 March 2012

Executive Board

Michael Troensegaard Andersen
CEO

Niels Eldrup Meidahl
CFO

Board of Directors

Anders C Karlsson
Chairman

Asbjørn Berge
Deputy Chairman

Stewart A Baseley

Pierre-Yves Jullien

Henrik Lind

Independent auditors' report

To the shareholders of H+H International A/S

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

We have audited the consolidated financial statements and the parent company financial statements of H+H International A/S for the financial year 1 January – 31 December 2011. The consolidated financial statements and the parent company financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for the Group as well as for the parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

Copenhagen, 15 March 2012

KPMG

Statsautoriseret Revisionspartnerselskab

Jesper Koefoed

State Authorised Public Accountant

An audit involves performing procedures to obtain audit evidence for the amounts and disclosures in the consolidated financial statements and the parent company financial statements.

The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2011 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

STATEMENT ON THE MANAGEMENT'S REVIEW

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Lau Bent Baun

State Authorised Public Accountant

Income statement

Note (DKK '000)	Group		Parent company	
	2011	2010	2011	2010
3 Revenue	1,309,753	1,185,468	0	0
4, 15 Production costs	(1,027,451)	(947,883)	0	0
Gross profit	282,302	237,585	0	0
4 Other external expenses	(194,954)	(234,818)	(26,713)	(37,134)
5 Other operating income and expenses	4,107	(7,590)	13,872	14,907
Profit before depreciation, amortisation and financial items (EBITDA)	91,455	(4,823)	(12,841)	(22,227)
6 Depreciation	(101,938)	(118,912)	(283)	(950)
7 Impairment losses	0	(121,697)	(354,204)	(43,167)
Operating profit (EBIT)	(10,483)	(245,432)	(367,328)	(66,344)
8 Financial income	1,360	14,981	32,575	44,404
9 Financial expenses	(43,680)	(44,036)	(38,208)	(26,320)
Profit before tax	(52,803)	(274,487)	(372,961)	(48,260)
10 Tax on profit from continuing operations	(16,094)	11,571	1,509	(9,500)
Profit for the year from continuing operations	(68,897)	(262,916)	(371,452)	(57,760)
23 Profit for the year from discontinued operations	(48,637)	(7,562)	0	0
Profit for the year	(117,534)	(270,478)	(371,452)	(57,760)
Distribution of profit				
Retained earnings	(117,534)	(270,478)	(371,452)	(57,760)
Dividend for the year of DKK 0 per nominal share of DKK 50 (2010: DKK 0)	0	0	0	0
Total	(117,534)	(270,478)	(371,452)	(57,760)
11 Earnings per share (EPS-Basic)	(12.01)	(27.63)		
11 Diluted earnings per share (EPS-D)	(12.01)	(27.63)		
11 Earnings per share from continuing operations (EPS-Basic)	(7.04)	(26.86)		
11 Diluted earnings per share from continuing operations (EPS-D)	(7.04)	(26.86)		

Statement of comprehensive income

Note (DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Profit for the year	(117,534)	(270,478)	(371,452)	(57,760)
Other comprehensive income				
Foreign exchange adjustments, foreign companies	(56,602)	41,057	0	0
Tax on other comprehensive income	1,228	(3,365)	0	0
Other comprehensive income after tax	(55,374)	37,692	0	0
Total comprehensive income	(172,908)	(232,786)	(371,452)	(57,760)
Attributable to:				
Shareholders in H+H International A/S	(172,908)	(232,786)	(371,452)	(57,760)
Non-controlling interests	0	0	0	0
	(172,908)	(232,786)	(371,452)	(57,760)

Balance sheet at 31 December

ASSETS

Note (DKK '000)	Group		Parent company		
	2011	2010	2011	2010	
Non-current assets					
Intangible assets					
	Goodwill	81,773	88,388	0	0
	Other intangible assets	13,337	28,207	6,262	6,445
12		95,110	116,595	6,262	6,445
Property, plant and equipment					
	Land and buildings	398,202	467,789	0	0
	Plant and machinery	507,637	560,231	0	0
	Fixtures and fittings, tools and equipment	123,504	137,187	588	897
	Property, plant and equipment under construction	8,358	22,183	0	0
12		1,037,701	1,187,390	588	897
Other non-current assets					
13	Deferred tax assets	40,350	55,183	0	0
14	Investments in subsidiaries	0	0	1,034,408	1,129,072
	Receivables from subsidiaries	0	0	382,339	649,808
		40,350	55,183	1,416,747	1,778,880
Total non-current assets		1,173,161	1,359,168	1,423,597	1,786,222
Current assets					
15	Inventories	190,991	181,779	0	0
16	Receivables from sale of goods	87,821	78,275	0	0
	Tax receivable	386	599	0	0
16	Other receivables	11,684	12,180	677	1,117
	Prepayments	5,207	9,039	0	0
	Cash and cash equivalents	19,855	13,062	18	19
		315,944	294,934	695	1,136
23	Assets held for sale	91,597	0	0	0
Total current assets		407,541	294,934	695	1,136
TOTAL ASSETS		1,580,702	1,654,102	1,424,292	1,787,358

EQUITY AND LIABILITIES

Note (DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Equity				
Share capital	490,500	490,500	490,500	490,500
Translation reserve	(125,277)	(69,903)	0	0
Retained earnings	188,228	304,955	580,491	951,136
Proposed dividend	0	0	0	0
Shareholders in H+H International A/S's share of equity	553,451	725,552	1,070,991	1,441,636
Non-controlling interests	0	0	0	0
Total equity	553,451	725,552	1,070,991	1,441,636
Liabilities				
Non-current liabilities				
18 Pension obligations	65,457	80,585	0	0
19 Other provisions	7,725	20,137	0	0
13 Deferred tax liabilities	34,428	32,085	7,264	8,773
20 Credit institutions	648,307	626,174	275,531	286,643
Total non-current liabilities	755,917	758,981	282,795	295,416
Current liabilities				
20 Credit institutions	88	493	9	23
Trade payables	130,867	72,193	1,819	2,872
Income tax	710	12,876	0	0
Payables to subsidiaries	0	0	58,736	34,961
Other payables	74,159	84,007	9,942	12,450
	205,824	169,569	70,506	50,306
23 Liabilities relating to assets held for sale	65,510	0	0	0
Total current liabilities	271,334	169,569	70,506	50,306
Total liabilities	1,027,251	928,550	353,301	345,722
TOTAL EQUITY AND LIABILITIES	1,580,702	1,654,102	1,424,292	1,787,358

Cash flow statement

Note (DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Operating activities				
Operating profit	(10,483)	(245,432)	(367,328)	(66,344)
Financial items	(42,319)	(40,647)	(5,633)	18,084
Depreciation, amortisation and impairment losses	101,938	240,609	354,487	44,117
Other adjustments	2,453	(3,934)	583	(2,462)
Change in inventories	(13,439)	34,055	0	0
Change in receivables	(17,639)	46,641	440	128
Change in trade payables and other payables	60,048	9,966	(3,562)	7,036
Change in provisions	(21,194)	5,259	0	0
Income tax paid	(16,420)	(76)	0	0
	42,945	46,441	(21,013)	559
Investing activities				
Sale of property, plant and equipment	4,710	3,338	2,137	594
Capital contributions to subsidiaries	0	0	(232,721)	0
Sale of subsidiary	0	0	252,764	0
Acquisition of property, plant and equipment and intangible assets	(36,889)	(35,177)	(1,928)	(3,922)
Property, plant and equipment and intangible assets held under finance leases	0	0	(211)	220
	(32,179)	(31,839)	20,041	(3,108)
Free cash flow	10,766	14,602	(972)	(2,549)
Financing activities				
Paid expenses in connection with share issue	0	(3,942)	0	(3,942)
Change in intragroup balances	0	0	11,886	31,464
Raising of long-term debt	281,697	23,174	0	0
Reduction of long-term debt	(265,069)	(29,032)	(10,915)	(24,986)
	16,628	(9,800)	971	2,536
Cash flow from discontinued operations	(17,404)	(9,849)	0	0
Cash flow for the year	9,990	(5,047)	(1)	(13)
Cash and cash equivalents at 1 January	13,062	17,625	19	32
Foreign exchange adjustments of cash and cash equivalents	(598)	484	0	0
Cash and cash equivalents at 31 December 2011	22,454	13,062	18	19
Cash and cash equivalents at 31 December 2011, continuing operations	19,855			
Cash and cash equivalents at 31 December 2011, discontinued operations	2,599			
	22,454			

Statement of changes in equity

Group

(DKK '000)

	Share capital	Translation reserve	Hedging reserve	Retained earnings	Proposed dividend	Total	Non-controlling interests	Total
Equity at 1 January 2010	490,500	(107,595)	0	575,235	0	958,140	21	958,161
Profit for the year	0	0	0	(270,478)	0	(270,478)	0	(270,478)
Other comprehensive income in 2010								
Foreign exchange adjustments, foreign companies	0	41,057	0	0	0	41,057	0	41,057
Tax on other comprehensive income	0	(3,365)	0	0	0	(3,365)	0	(3,365)
Net gains recognised directly in equity	0	37,692	0	0	0	37,692	0	37,692
Total comprehensive income	0	37,692	0	(270,478)	0	(232,786)	0	(232,786)
Expenses in connection with share issue	0	0	0	(311)	0	(311)	0	(311)
Share-based payment	0	0	0	509	0	509	0	509
Purchase of non-controlling interests	0	0	0	0	0	0	(21)	(21)
Total changes in equity in 2010	0	37,692	0	(270,280)	0	(232,588)	(21)	(232,609)
Equity at 31 December 2010	490,500	(69,903)	0	304,955	0	725,552	0	725,552
Profit for the year	0	0	0	(117,534)	0	(117,534)	0	(117,534)
Other comprehensive income in 2011								
Foreign exchange adjustments, foreign companies	0	(56,602)	0	0	0	(56,602)	0	(56,602)
Tax on other comprehensive income	0	1,228	0	0	0	1,228	0	1,228
Net gains recognised directly in equity	0	(55,374)	0	0	0	(55,374)	0	(55,374)
Total comprehensive income	0	(55,374)	0	(117,534)	0	(172,908)	0	(172,908)
Share-based payment	0	0	0	807	0	807	0	807
Total changes in equity in 2011	0	(55,374)	0	(116,727)	0	(172,101)	0	(172,101)
Equity at 31 December 2011	490,500	(125,277)	0	188,228	0	553,451	0	553,451

Statement of changes in equity

Parent company					
(DKK '000)					
	Share capital	Hedging reserve	Retained earnings	Proposed dividend	Total
Equity at 1 January 2010	490,500	0	1,008,698	0	1,499,198
Profit for the year	0	0	(57,760)	0	(57,760)
Other comprehensive income in 2010	0	0	0	0	0
Total comprehensive income	0	0	(57,760)	0	(57,760)
Expenses in connection with share issue	0	0	(311)	0	(311)
Share-based payment	0	0	509	0	509
Total changes in equity in 2010	0	0	(57,562)	0	(57,562)
Equity at 31 December 2010	490,500	0	951,136	0	1,441,636
Profit for the year	0	0	(371,452)	0	(371,452)
Other comprehensive income in 2011	0	0	0	0	0
Total comprehensive income	0	0	(371,452)	0	(371,452)
Share-based payment	0	0	807	0	807
Total changes in equity in 2011	0	0	(370,645)	0	(370,645)
Equity at 31 December 2011	490,500	0	580,491	0	1,070,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note

1	Accounting policies.....	42
2	Management's estimates and judgements.....	54
3	Segment information.....	56
4	Staff costs.....	58
5	Other operating income and expenses.....	61
6	Depreciation and amortisation.....	61
7	Impairment losses.....	62
8	Financial income.....	62
9	Financial expenses.....	62
10	Tax.....	63
11	Earnings per share.....	64
12	Intangible assets and property, plant and equipment.....	64
13	Deferred tax.....	68
14	Investments in subsidiaries.....	69
15	Inventories/production costs.....	70
16	Receivables.....	70
17	Share capital and treasury shares.....	72
18	Pension obligations.....	73
19	Other provisions.....	76
20	Credit institutions.....	77
21	Contingent liabilities.....	78
22	Auditors' remuneration.....	78
23	Discontinuing operations and assets held for sale.....	79
24	Related parties.....	80
25	Financial instruments and financial risks.....	81
26	Management's holdings of shares in H+H International A/S.....	87
27	Major shareholders and shareholder groups.....	87
28	Events after the balance sheet date.....	88

Notes

1 Accounting policies

H+H International A/S is a public limited company registered in Denmark. The annual report for the period 1 January – 31 December 2011 comprises both the consolidated financial statements of H+H International A/S and its subsidiaries (the H+H Group) and separate financial statements for the parent company.

The annual report of H+H International A/S for 2011 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

The Board of Directors and Executive Board discussed and approved the annual report of H+H International A/S for 2011 on 14 March 2012. The annual report will be put before H+H International A/S's shareholders for approval at the annual general meeting on 18 April 2012.

Basis of preparation

The annual report is presented in DKK rounded to the nearest DKK 1,000.

The annual report has been prepared using the historical cost principle. However, recognised derivatives are measured at fair value, and non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount before the reclassification and fair value less selling costs.

The accounting policies set out below have been applied consistently during the financial year and to the comparative figures.

There have been no changes to the accounting policies compared with last year, except for implementation of new accounting standards.

Adoption of new and revised IFRSs

H+H International A/S has adopted the new or revised and amended International Financial Reporting Standards (IFRSs) issued by IASB and endorsed by the European Union effective for the financial year 2011. Based on an analysis carried out by H+H International A/S, the applica-

tion of the new IFRSs has not had a material impact on the consolidated financial statements in 2011 and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs.

New IFRSs that have been issued but not yet come into effect

In addition to the above, IASB has issued a number of new or amended standards and interpretations (IFRSs) which have been endorsed by the European Union but not yet come into effect. H+H International A/S has thoroughly assessed the impact of these IFRSs that are not yet effective.

The amendments to IAS 19 Employee benefits which will be implemented on 1 January 2013 are expected to have a material effect on the consolidated financial statements. The effect on equity of unrecognised actuarial losses calculated at 31 December 2011 is a reduction of DKK 98 million.

DESCRIPTION OF ACCOUNTING POLICIES

Consolidated financial statements

The consolidated financial statements include the parent company H+H International A/S and subsidiaries in which H+H International A/S has control of the subsidiary's financial and operating policies so as to obtain returns or other benefits from the subsidiary's activities. Control exists when H+H International A/S holds or has the ability to exercise, directly or indirectly, more than 50% of the voting rights or otherwise has control of the subsidiary in question.

The consolidated financial statements have been prepared by aggregation of the parent company's and the individual subsidiaries' financial statements, applying the H+H Group's accounting policies. Intragroup income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains arising from intragroup transactions are eliminated on consolidation.

Investments in subsidiaries are offset against the proportionate share of the fair value of the subsidiaries' identifiable net assets and recognised contingent liabilities at the date of acquisition.

1 Accounting policies – continued

Business combinations

Entities acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition. Entities disposed of or wound up during the year are recognised in the consolidated income statement up to the date of disposal. Comparative figures are not restated to reflect acquisitions.

On the acquisition of entities whereby the parent company obtains control of the acquiree, the purchase method is applied. The acquirees' identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. Deferred tax on the restatements made is recognised.

The acquisition date is the date on which H+H International A/S obtains control of the acquiree.

Any excess of, on the one hand, the consideration transferred, the recognised amount of non-controlling interests in the acquiree, and the fair value of any previously held equity interests, and, on the other, the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recognised as goodwill under intangible assets.

Goodwill is not amortised, but tested at least annually for impairment. The first impairment test is carried out before the end of the year of acquisition. On acquisition, goodwill is allocated to the cash-generating units which subsequently form the basis for impairment testing. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency other than the H+H Group's presentation currency are accounted for as assets and liabilities belonging to the foreign entity and translated on initial recognition into the foreign entity's functional currency at the exchange rate at the transaction date. Any excess of the fair value over the cost of acquisition (negative goodwill) is recognised in the income statement at the date of acquisition.

The consideration for an entity consists of the fair value of the agreed consideration in the form of assets given, liabilities assumed and equity instruments issued. If part of the consideration is contingent on future events or fulfilment of agreed terms and conditions, this part is recognised at fair

value at the acquisition date. Costs attributable to business combinations are recognised directly in the income statement when incurred.

Should there be uncertainty about the identification or measurement of the assets acquired, the liabilities and contingent liabilities assumed, or the calculation of the consideration transferred, these are recognised initially on the basis of provisional values. Should the identification or measurement of the consideration transferred, the assets acquired or the liabilities and contingent liabilities assumed on initial recognition prove incorrect, the amounts (including goodwill) may be adjusted with retrospective effect for up to 12 months from the acquisition date, and the comparative figures restated accordingly. After this, no adjustments may be made. Changes in estimated contingent consideration are generally recognised directly in the income statement.

Gains or losses on disposal or winding-up of subsidiaries are determined as the difference between proceeds on disposal and the carrying amount of net assets including goodwill at the date of disposal and selling costs or winding-up costs.

Foreign currency translation

For each entity included in the consolidated financial statements, a functional currency has been determined. The functional currency of an entity is the currency of the primary economic environment in which the entity operates. Transactions in currencies other than the functional currency are accounted for as transactions in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated into the functional currency at the exchange rates at the balance sheet date. The difference between the exchange rate at the balance sheet date and the exchange rate at the date at which the receivable or payable arose or the exchange rate used in the last annual report is recognised in the income statement as financial income or financial expenses.

Notes

1 Accounting policies – continued

On the recognition in the consolidated financial statements of foreign entities with a functional currency other than DKK, the income statements are translated at the exchange rates at the transaction date and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for each month is used as the exchange rate at the transaction date to the extent that this does not give a significantly different view. Foreign exchange differences arising on translation of the opening equity of foreign entities at the exchange rates at the balance sheet date, and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date, are recognised directly in equity under a separate translation reserve. These differences are allocated between the parent company shareholders' share of equity and non-controlling interests' share of equity.

Foreign exchange adjustments of balances considered part of the overall net investment in entities with a functional currency other than DKK are recognised in the consolidated financial statements directly in equity under a separate translation reserve. Correspondingly, foreign exchange gains and losses on that part of loans and derivative financial instruments entered into to hedge the net investment in such entities which effectively hedges against corresponding exchange gains/losses on the net investment in the entity are recognised directly in equity under a separate translation reserve.

On the complete or partial disposal of a foreign operation, or on the repayment of balances that are considered part of the net investment, the share of the cumulative exchange adjustments that is recognised directly in equity and attributable to this is recognised in the income statement when the gain or loss on disposal is recognised. On the disposal of partially owned foreign subsidiaries, the part of the translation reserve attributable to non-controlling interests is not transferred to the income statement.

On the partial disposal of foreign subsidiaries without loss of control, a proportionate share of the translation reserve is transferred from the parent company shareholders' share of equity to non-controlling interests' share of equity.

The repayment of balances that are considered part of the net investment is not itself considered to constitute partial disposal of the subsidiary.

Derivative financial instruments

Derivative financial instruments are recognised from the trade date and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables and other payables respectively, and offsetting of positive and negative fair values is only effected if the entity is permitted to and intends to settle several financial instruments net in cash. Fair values of derivative financial instruments are determined on the basis of current market data and recognised valuation methods.

Fair value hedges. Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as hedges of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the value of the hedged asset or liability to the extent of the hedged risk. Hedges of the value of future cash flows from contracts concluded (firm commitments) are accounted for as fair value hedges, except in the case of foreign currency hedging.

That part of a derivative financial instrument that is not part of a hedging relationship is presented under financial items.

Cash flow hedges. Changes in the portion of the fair value of derivative financial instruments designated as and qualifying for recognition as hedges of future cash flows and providing an effective hedge against changes in the value of the hedged item are recognised in equity under a separate hedging reserve until the hedged cash flows affect the income statement. The resulting gain or loss is then transferred from equity and recognised in the same item as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. The cumulative gain or loss recognised in equity is transferred to the income statement when the hedged cash flows affect the income statement.

1 Accounting policies – continued

If the hedged cash flows are no longer expected to be realised, the cumulative gain or loss is recognised immediately in the income statement.

That part of a derivative financial instrument that is not part of a hedging relationship is presented under financial items.

Hedges of a net investment. Changes in the fair value of derivative financial instruments that are used to hedge net investments in foreign Group entities and that provide an effective hedge against changes in foreign exchange rates in these Group entities are recognised in the consolidated financial statements directly in equity under a separate translation reserve.

That part of a derivative financial instrument that is not part of a hedging relationship is presented under financial items.

Other derivative financial instruments. For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement under financial items on a continuing basis.

Some contracts have terms and conditions equivalent to derivative financial instruments. Such embedded financial instruments are recognised separately and measured at fair value on a continuing basis if they differ significantly from the host contract, unless the entire combined contract is recognised and measured at fair value on a continuing basis.

INCOME STATEMENT

Revenue from the sale of goods for resale and finished goods is recognised in the income statement if delivery and transfer of risk to the buyer have taken place, and if the income can be measured reliably and is expected to be received.

Revenue is measured net of VAT and duties collected on behalf of third parties. All types of discount and rebate granted are recognised in revenue.

Production costs comprise costs incurred in generating the revenue for the year. The trading entities recognise cost of sales and the producing entities' production costs, corresponding to revenue for the year. This includes the direct

and indirect cost of raw materials and consumables, and wages and salaries.

Other external expenses cover other expenses, including purchases of goods and services that are not directly attributable to production. Also included in this item are staff costs that are not directly attributable to production.

Other external expenses also include research and development costs that do not meet the criteria for capitalisation.

Other operating income and expenses comprise items secondary to the entities' activities, such as gains and losses on disposal of property, plant and equipment. Gains and losses on disposal of intangible assets and property, plant and equipment are determined as the selling price less selling costs and the carrying amount at the date of disposal.

Financial income and expenses comprise interest income and expenses, capital gains and losses, and impairment losses relating to securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities, including finance lease obligations, and surcharges and allowances under the tax prepayment scheme etc. Financial income and expenses also include realised and unrealised gains and losses relating to derivative financial instruments that cannot be designated as hedging transactions.

However, borrowing costs related to the financing of the production of the H+H Group's assets are recognised in the cost of the assets.

Dividends from investments in subsidiaries are credited to the parent company's income statement in the financial year in which they are declared.

Tax on profit comprises current tax and changes in deferred tax for the year. The portion that relates to profit for the year is recognised in the income statement, and the portion that relates to amounts recognised directly in equity is recognised directly in equity.

H+H International A/S is taxed jointly with all its Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed companies in proportion to their taxable

Notes

1 Accounting policies – continued

income. Subsidiaries that utilise tax losses in other subsidiaries pay joint taxation contributions to the parent company equivalent to the tax base of the utilised losses, while subsidiaries with tax losses that are utilised by other subsidiaries receive joint taxation contributions from the parent company equivalent to the tax base of the tax losses utilised (full absorption). The jointly taxed companies are taxed under the tax prepayment scheme.

Where the H+H Group receives a tax deduction in the calculation of taxable income in Denmark or abroad as a result of share-based payment schemes, the tax effect of these schemes is recognised in tax on profit. If the total deduction exceeds the total remuneration expense, the tax effect of the excess deduction is recognised directly in equity.

BALANCE SHEET

Goodwill is recognised initially in the balance sheet at cost as described under Business combinations. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the H+H Group's cash-generating units at the date of acquisition. The determination of cash-generating units follows the H+H Group's organisational and internal reporting structure.

Other intangible assets comprise development projects, patents, licences and other intangible assets.

Development projects that are clearly defined and identifiable, and for which technical feasibility, adequate resources and a potential future market or an application in the entity can be demonstrated, and which the entity intends to manufacture, market or use, are recognised as intangible assets if the cost can be determined reliably and if there is reasonable certainty that the future earnings or the net selling price will cover production costs, selling costs, administrative expenses and development costs. Other development costs are recognised in the income statement when incurred.

Recognised development costs are measured at cost less cumulative amortisation and impairment losses. Cost comprises salaries, amortisation and other expenses attributable

to the H+H Group's development activities and interest expenses on loans to finance the production of development projects that relate to the production period.

On completion of the development work, development projects are amortised on a straight-line basis over the estimated economic useful life from the date the asset is available for use. The amortisation period is normally 5-10 years. The amortisation base is reduced by any impairment losses.

Patents and licences are measured at cost less cumulative amortisation and impairment losses. Patents and licences are amortised on a straight-line basis over the shorter of the remaining patent or contract period and the useful life. The amortisation base is reduced by any impairment losses.

Other intangible assets are amortised on a straight-line basis over the expected useful lives of the assets.

Property, plant and equipment. Land and buildings, plant and machinery, and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises purchase price and any costs directly attributable to the acquisition up to the date the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and labour. Cost is increased by estimated costs for dismantling and removal of the asset and restoration costs, to the extent that they are recognised as a provision, and interest expenses on loans to finance the production of property, plant and equipment that relate to the production period. The cost of a combined asset is divided into separate components that are depreciated separately if the components have different useful lives.

In the case of assets held under finance leases, cost is determined at the lower of the assets' fair value and the present value of the future minimum lease payments. In determining the present value, the interest rate implicit in the lease or the H+H Group's incremental borrowing rate is used as the discount rate.

1 Accounting policies – continued

Subsequent costs, for example in connection with replacement of part of an item of property, plant or equipment, are recognised in the carrying amount of the asset if it is probable that future economic benefits will flow to the H+H Group from the expenses incurred. The replaced part is derecognised in the balance sheet, and the carrying amount is transferred to the income statement. All other expenses for general repair and maintenance are recognised in the income statement as incurred.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the assets as follows:

- Buildings 10-50 years
- Plant and machinery 2-20 years
- Fixtures and fittings, tools and equipment 2-10 years
- Intangible assets 3-35 years

Land is not depreciated.

The depreciation base is determined taking into account the asset's residual value and is reduced by any impairment losses. The residual value is determined at the date of acquisition and reviewed annually. Depreciation ceases if the residual value of an asset exceeds its carrying amount.

The effect on depreciation of any changes in depreciation period or residual value is recognised prospectively as a change in accounting estimates.

Investments in subsidiaries in the parent company's financial statements. Investments in subsidiaries are measured at cost. If there is any indication of impairment, an impairment test is carried out as described in the H+H Group's accounting policies. Cost is written down to the recoverable amount whenever the carrying amount exceeds the recoverable amount.

Impairment of non-current assets. Goodwill and intangible assets with an indefinite useful life are tested for impairment annually, the first time before the end of the year of acquisition. Development projects in process are similarly tested for impairment annually.

The carrying amount of goodwill is tested for impairment together with the other non-current assets of the cash-generating unit to which the goodwill has been allocated, and written down to the recoverable amount in the income statement if the carrying amount exceeds the recoverable amount. As a rule, the recoverable amount is determined as the present value of the expected future net cash flows from the entity or activity (cash-generating unit) to which the goodwill relates. Impairment losses relating to goodwill are recognised as a separate line item in the income statement.

The carrying amounts of other non-current assets are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the higher of its fair value less expected disposal costs and its value in use. The value in use is determined as the present value of expected future cash flows from the asset or the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the income statement under depreciation, amortisation and impairment losses.

Impairment losses relating to goodwill are not reversed. Impairment losses relating to other assets are reversed to the extent that the assumptions or estimates that led to the impairment loss have changed. Impairment losses are only reversed to the extent that the asset's new carrying amount does not exceed the value the asset would have had after depreciation/amortisation if no impairment losses had been charged.

Inventories are measured at cost using the FIFO method. Where the net realisable value is lower than the cost, inventories are written down to this lower value.

In the case of goods for resale, and raw materials and consumables, cost comprises purchase price plus expenses incurred in bringing the inventories to their existing location and condition.

Notes

1 Accounting policies – continued

In the case of finished goods and work in progress, cost comprises raw materials, consumables, direct labour, and production overheads. Production overheads comprise indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the production process, and the cost of factory administration and management.

The net realisable value of inventories is determined as the selling price less any costs of completion and costs incurred to execute the sale. The net realisable value is determined on the basis of marketability, obsolescence and developments in expected selling price.

A write-down for bad and doubtful debts is recorded if there is any objective evidence that an impairment loss on a receivable has been incurred. If objective evidence of impairment exists, the impairment loss is determined individually. Receivables that have been found not to be individually impaired are tested for impairment in groups. Impairment losses are calculated as the difference between the carrying amount and the present value of the estimated future cash flows, including the realisable value of any collateral received. The discount rate applied is the effective interest rate of the individual receivable. Write-downs and losses on receivables are recognised as other external expenses.

Receivables are measured at amortised cost, which in all material respects corresponds to the nominal value less write-downs for bad and doubtful debts.

Prepayments recognised under assets comprise expenses incurred in respect of subsequent financial years. Prepayments are measured at amortised cost.

EQUITY

Proposed dividends are recognised as a liability at the date of adoption at the annual general meeting (declaration date). The expected dividend for the year is disclosed as a separate item under equity.

Treasury shares. Acquisition costs, disposal costs and dividends relating to treasury shares are recognised directly in retained earnings under equity. Capital reductions on the cancellation of treasury shares reduce the share capital by

an amount equivalent to the nominal value of the shares. Proceeds from the sale of treasury shares in H+H International A/S in connection with the exercise of share options are taken directly to equity.

Translation reserve. This comprises parent company shareholders' share of foreign exchange differences arising on the translation of financial statements of entities with a functional currency other than DKK, foreign exchange adjustments relating to assets and liabilities that form part of the H+H Group's net investment in such entities, and foreign exchange adjustments relating to hedging transactions that hedge the H+H Group's net investment in such entities.

Hedging reserve. This comprises the accumulated net change in the fair value of hedging transactions that qualify for designation as hedges of future cash flows, and where the hedged transaction has yet to be realised.

Incentive schemes. The H+H Group's incentive schemes comprise a share option plan for senior executives and a matching share programme launched in June 2011.

The value of services rendered by employees in return for option and share grants is measured at the fair value of the options and shares.

For equity-settled share options, the grant date fair value is measured and recognised in the income statement as staff costs over the vesting period of the options and shares.

The costs are set off directly against equity.

On initial recognition of the share options and shares, the number of options and shares expected to vest is estimated, cf. the service condition described in note 4. The figure initially recognised is subsequently adjusted for changes in the estimate of the number of options and shares expected to vest, so that the total recognition is based on the actual number of vested options and shares.

The fair value of the options and shares granted is estimated using an option pricing model. The calculation takes account of the terms and conditions attaching to the share options and shares granted.

1 Accounting policies – continued

Pension obligations. The H+H Group has entered into pension agreements and similar agreements with some of its employees.

Obligations relating to defined contribution plans are recognised in the income statement over the vesting period, and any contributions payable are recognised in the balance sheet as other payables.

In the case of defined benefit plans, the value in use of future benefits to be paid under the plan is determined actuarially on an annual basis. The value in use is determined on the basis of assumptions concerning future trends in factors such as salary levels, interest rates, inflation and mortality.

The value in use is determined only for the benefits attributable to service already rendered to the H+H Group. The actuarially determined value in use less the fair value of any plan assets is recognised in the balance sheet under pension obligations, except as stated below.

The pension cost for the year is recognised in the income statement based on actuarial estimates and the financial outlook at the start of the year. If the cumulative actuarial gains and losses at the start of a financial year exceed the greater of the numerical value of 10% of the pension obligations and 10% of the fair value of the plan assets, the excess is recognised in the income statement. The amount in question is recognised in the income statement over the participating employees' expected average remaining working lives with the company. The proportion of actuarial gains/losses that is not recognised is disclosed in a note.

In the case of a change in benefits for employee service with the entity in prior periods, a change in the actuarially determined value in use arises which is designated as a historical cost. Historical costs are charged to the income statement immediately to the extent that the amended benefits have already vested. If not, they are recognised in the income statement over the vesting period for the amended benefits.

If the calculation results in plan assets exceeding liabilities to the H+H Group, the recognised asset is limited to the net total of any future refunds from the plan or reductions in future contributions to the plan.

Income tax and deferred tax. Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. However, the following temporary differences are not recognised: goodwill not deductible for tax purposes, office properties and other items – apart from business combinations – where temporary differences have arisen at the date of acquisition that affect neither accounting nor taxable profit. Where alternative tax rules can be applied to compute the tax base, deferred tax is measured on the basis of management's planned use of the asset or settlement of the liability respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised as other non-current assets at the value at which they are expected to be utilised either by elimination against tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax assets and liabilities are offset if the H+H Group has a legally enforceable right to offset current tax liabilities and assets or intends to settle current tax liabilities and assets on a net basis or to realise tax assets and liabilities simultaneously.

Adjustment of deferred tax is made in respect of elimination of unrealised intragroup profits and losses.

Deferred tax is measured on the basis of the tax rules and at the tax rates that will apply under the legislation enacted at the balance sheet date in the respective countries when the deferred tax is expected to crystallise in the form of current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement.

Under the joint taxation rules, H+H International A/S, as the administration company, becomes liable for the subsidiaries' income taxes to the tax authorities as the subsidiaries pay

Notes

1 Accounting policies – continued

their joint taxation contributions. Joint taxation contributions payable and receivable are recognised in the balance sheet under receivables/payables from Group entities.

Provisions. Provisions are recognised when, as a result of an event occurring before or at the balance sheet date, the H+H Group has a legal or constructive obligation, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits.

The measurement of provisions is based on management's best estimate of the amount expected to be required to settle the obligation.

In connection with the measurement of provisions, the costs required to settle the obligation are discounted to net present value if this has a material effect on the measurement of the obligation. A pre-tax discount rate is applied that reflects society's general interest rate level plus the specific risks attaching to the provision. The changes in present values during the financial year are recognised under financial expenses.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data.

A provision for restructuring is recognised when a detailed formal plan for the restructuring has been made public, no later than the balance sheet date, to those affected by the plan.

A provision for onerous contracts is recognised when the benefits expected to be derived by the H+H Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

When the H+H Group has an obligation to dismantle or remove an asset or restore the site on which the asset has been used, a provision equivalent to the present value of the expected future expenses is recognised.

Leasing. Lease commitments are accounted for as commitments under finance leases and commitments under operating leases respectively. A lease is classified as a finance lease

if it transfers substantially all the risks and rewards of ownership of the leased asset. Other leases are classified as operating leases.

The accounting treatment of assets held under finance leases and the associated liability is described in the sections on property, plant and equipment, and financial liabilities respectively.

Lease payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Financial liabilities. Bank loans etc. are recognised at the date of borrowing at the proceeds received net of transaction costs incurred. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest rate method. Accordingly, the difference between the proceeds and the nominal amount is recognised in the income statement under financial expenses over the term of the loan.

Financial liabilities also include the capitalised residual obligation on finance leases, measured at amortised cost.

Other liabilities are measured at amortised cost.

Assets held for sale. Assets held for sale comprise non-current assets and disposal groups which are intended for sale. A disposal group is a group of assets which will be disposed of together by means of sale or similar in a single transaction. Liabilities relating to assets held for sale are liabilities directly associated with these assets, which will be transferred at the time of the transaction. Assets are classified as 'held for sale' if their carrying amount will primarily be recovered by means of sale within 12 months in accordance with a formal plan rather than by means of continued use.

Assets or disposal groups held for sale are measured at the lower of the carrying amount at the time of classification as 'held for sale' and the fair value less selling costs. No depreciation or amortisation is applied to assets from the time they are classified as 'held for sale'.

1 Accounting policies – continued

Impairment losses arising in connection with initial classification as 'held for sale' and gains or losses on subsequent measurement at the lower of carrying amount and fair value less selling costs are recognised in the income statement under the items to which they relate. Gains and losses are disclosed in the notes.

Assets and associated liabilities are recorded separately in the balance sheet, and the main items are specified in the notes. The comparative figures in the balance sheet are not restated.

Presentation of discontinued operations. Discontinued operations make up a significant part of the business, the activities and cash flows of which can be clearly separated from the rest of the business in operational and accounting terms and where the entity has either been disposed of or has been classified as 'held for sale' and the sale is expected to be implemented within one year in accordance with a formal plan.

Profit after tax from discontinued operations, value adjustments after tax on associated assets and liabilities, and gains/losses on sale are presented in a separate line in the income statement, and the comparative figures are restated. Revenue, expenses, value adjustments and tax on the discontinued operation are disclosed in the notes. Assets and associated liabilities for discontinued operations are recorded separately in the balance sheet without the comparative figures being restated, cf. 'Assets held for sale', and the main items are specified in the notes.

Cash flows from operating, investing and financing activities for the discontinued operations are disclosed in a note.

CASH FLOW STATEMENT

The cash flow statement shows the cash flows for the year, broken down by operating, investing and financing activities, and the year's change in cash and cash equivalents as well as the cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of entities is shown separately under cash flows from investing activities. Cash flows from acquisitions of entities are recognised

in the cash flow statement from the date of acquisition, and cash flows from disposals of entities are recognised up to the date of disposal.

Cash flows in currencies other than the functional currency are translated at average exchange rates, unless these deviate significantly from the rates at the transaction date.

Cash flows from operating activities are determined as pre-tax profit adjusted for non-cash operating items, change in working capital, interest received and paid, and income tax paid.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities; acquisitions and disposals of intangible assets, property, plant and equipment, and other non-current assets; and acquisitions and disposals of securities that are not recognised as cash and cash equivalents.

Finance leases are accounted for as non-cash transactions.

Cash flows from financing activities comprise changes in the size or composition of the share capital and associated expenses as well as the raising of loans, repayment of interest-bearing debt, repurchase and sale of treasury shares, and payment of dividends.

Cash flows relating to assets held under finance leases are recognised as payment of interest and repayment of debt.

Cash and cash equivalents comprise cash and securities with a maturity of less than three months at the time of acquisition that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Notes

1 Accounting policies – continued

SEGMENT INFORMATION

Segment information is prepared in accordance with the H+H Group's accounting policies and internal financial reporting.

Segment revenue, segment expenses, segment assets and segment liabilities are those items that are directly attributable to the individual segment or can be allocated to the segment on a reliable basis. Unallocated items comprise primarily assets, liabilities, income and expenses relating to the H+H Group's administrative functions, investing activities etc.

Non-current segment assets are those non-current assets that are employed directly by the segment in its operating activities, including intangible assets and property, plant and equipment.

Current segment assets are those current assets that are employed directly by the segment in its operating activities, including inventories, trade receivables, other receivables, prepayments, and cash and cash equivalents.

Segment liabilities are those liabilities that result from the segment's operating activities, including trade payables and other payables.

1 Accounting policies – continued

FINANCIAL RATIOS

Earnings per share (EPS) and diluted earnings per share (EPS-D) are determined in accordance with IAS 33.

Other financial ratios have been prepared in accordance with the Danish Society of Financial Analysts' 'Recommendations & Financial Ratios 2010'.

The financial ratios under financial highlights have been calculated as follows:

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Return on invested capital (ROIC)	$\frac{\text{Operating profit} \times 100}{\text{Average invested capital}}$
Profit	Profit attributable to the shareholders in the parent company
Earnings per share (EPS-Basic)	$\frac{\text{Profit}}{\text{Average number of shares outstanding}}$
Diluted earnings per share (EPS-D)	$\frac{\text{Diluted earnings}}{\text{Diluted average number of shares outstanding}}$
Return on equity	$\frac{\text{Profit} \times 100}{\text{Average equity excl. non-controlling interests}}$
Solvency ratio	$\frac{\text{Equity at year-end attributable to the H+H Group} \times 100}{\text{Total equity and liabilities, year-end}}$
Book value per share, year-end	$\frac{\text{H+H Group equity, year-end}}{\text{Number of shares, year-end}}$
Price/book value	$\frac{\text{Share price}}{\text{Book value per share, year-end}}$
Price-earnings ratio (PE)	$\frac{\text{Share price}}{\text{Earnings per share}}$
Payout ratio	$\frac{\text{Total dividend paid} \times 100}{\text{Profit}}$
Free cash flow	The sum of cash flow from operating and investing activities

Notes

2 Management's estimates and judgements

Estimation uncertainty

Determining the carrying amounts of some assets and liabilities requires management to make judgements, estimates and assumptions concerning future events.

The estimates and assumptions made are based on historical experience and other factors that are believed by management to be sound under the circumstances, but that, by their nature, are uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unforeseen events or circumstances may occur. Moreover, the H+H Group is subject to risks and uncertainties that may lead to the actual outcomes differing from these estimates. Particular risks to the H+H Group are discussed in the management review on pages 14-16 and in note 25.

It may be necessary to change estimates made previously as a result of changes in the factors on which these were based or as a result of new knowledge or subsequent events.

Due to developments in the global economy and financial markets in 2011, the uncertainty related to a number of key assumptions concerning the future, including sales volume, credit risks, interest rate levels and profitability etc., remained greater than in the years before 2010.

Estimates that have a significant effect on the financial reporting are made in connection with, for example, the determination of depreciation, amortisation and impairment losses, provisions, fair values, contingent assets and liabilities, and pension obligations. The H+H Group will be dependent on debt financing in the coming years and maintenance of the committed credit facilities is conditional upon compliance with a number of financial covenants; see note 25.

Impairment testing. Annual impairment testing of goodwill and property, plant and equipment is based on the value in use of the individual cash-generating unit, using the discounted cash flow method. The calculation is based on budgets approved by management. Cash flows after the budget period are extrapolated using individual growth rates. The discount rate used for the calculation incorporates possible impacts of future risks.

The cash flows and growth rates take account of experience from previous years, and represent management's best estimate of future developments. In combination with the discount rate, however, these estimates may have a significant impact on the calculated values. Further information can be found in note 12. The total carrying amount of goodwill at the end of 2011 was DKK 82 million (2010: DKK 88 million). The total carrying amount of property, plant and equipment at the end of 2011 was DKK 1,038 million (2010: DKK 1,187 million).

The assumptions used in connection with impairment testing may be summarised as follows:

	Poland*	Germany	UK	Russia	Czech Republic	Finland
Property, plant and equipment at 31 December 2011	237,538	260,159	224,120	182,152	149,662	15,694
Estimated average annual growth in revenue 2012-2017 (CAGR)	8.3%	6.5%	10.2	17.9%	9.9%	3.1%
Estimated gross margin 2012-2017	14-27%	25-27%	18-22%	24-28%	25-35%	18-20%
WACC	10.4%	6.6%	8.4%	17.8%	8.4%	7.9%

* For Poland the forecast period has been extended to 2019. CAGR for the period 2012-2019 is 8.3%

2 Management's estimates and judgements – continued

Recovery of deferred tax assets. Deferred tax assets are recognised for all unutilised tax loss carry-forwards to the extent it is considered likely that the losses can be offset against taxable income in the foreseeable future. The amount recognised for deferred tax assets is based on estimates of the likely date and size of future tax loss carry-forwards.

At 31 December 2011 H+H International A/S assessed that tax loss carry-forwards totalling DKK 57 million could be realised within the foreseeable future.

Inventories. Estimation uncertainty relates to write-downs to net realisable value.

Inventories are generally written down in accordance with the Group's policies in this area, which comprise individual assessment of inventories with a view to possible losses as a result of obsolescence, poor quality and cyclical effects. Write-downs of DKK 6.5 million (2010: DKK 12.5 million) have been made in 2011; see note 15.

Receivables. Management currently makes estimates in assessing the recoverability of receivables at the balance sheet date. The international financial situation means there is an increased risk of losses on bad and doubtful debts, which has been taken into consideration in assessment of write-downs at the balance sheet date and in the day-to-day management and control of receivables.

In particular, receivables denominated in RUB from customers in Russia totalling DKK 6.6 million are subject to a higher level of uncertainty than normal; see note 16.

Defined benefit pension plans. The present value of pension obligations depends on the actuarial assumptions made. These assumptions comprise the discount rate, the estimated return on plan assets, future salary increases, mortality and future developments in pension obligations.

All assumptions are reviewed at the reporting date. Any changes in the assumptions will affect the carrying amount of the pension obligations. Estimates regarding pension obligations are discussed in note 18.

Assets held for sale and discontinued operations. In the second quarter of 2011, the Board of Directors announced its decision to divest various assets that are no longer central to the H+H Group's strategy, and the subsidiary Jämeräkivitalot Oy was put up for sale in the third quarter of 2011.

As no binding sales agreement has yet been entered into, there is some uncertainty associated with measurement and recognition. Estimates significant to the financial reporting for discontinued operations mainly comprise measurement of the selling price of projects in progress, which is determined i.a. on the basis of expected residual expenses and income. Also relevant here is the outcome of disputes relating to claims for additional performance, payment for delays etc., determined i.a. on the basis of the stage of negotiation with the counterparty and an assessment of the likely outcome.

Accounting policies

As part of the application of the H+H Group's accounting policies, management makes judgements, in addition to estimates, that may have a significant effect on the amounts recognised in the consolidated and parent company financial statements.

No special estimates were made in either 2010 or 2011.

Notes

3 Segment information

DKK million	Group							
	2011							
	Western Europe			Eastern Europe			Eastern Europe, total	Discontinued operations*
Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total			
Revenue, external	707.3	221.2	928.5	376.0	5.3	381.3	129.0	1,438.8
Revenue, internal	148.6	0.3	148.9	9.0	0.3	9.3	0	158.2
EBITDA	88.0	5.2	93.2	12.5	(1.2)	11.3	(41.6)	62.9
Depreciation and amortisation	(57.5)	(1.4)	(58.9)	(42.9)	0	(42.9)	(0.7)	(102.5)
EBITA	30.5	3.8	34.3	(30.4)	(1.2)	(31.6)	(42.3)	(39.6)
Impairment losses	0	0	0	0	0	0	0	0
Operating profit (EBIT)	30.5	3.8	34.3	(30.4)	(1.2)	(31.6)	(42.3)	(39.6)
Financial income	1.8	0.3	2.1	0.6	0	0.6	0	2.7
Financial expenses	(16.9)	(2.0)	(18.9)	(36.1)	(1.6)	(37.7)	(0.3)	(56.9)
Profit before tax**	15.4	2.1	17.5	(65.9)	(2.8)	(68.7)	(42.6)	(93.8)
Non-current assets	774.2	18.7	792.9	634.3	1.2	635.5	0	1,428.4
Investments in intangible assets and property, plant and equipment	22.8	0.6	23.4	11.4	0	11.4	0.9	35.7
Assets	1,067.0	77.8	1,144.8	737.4	1.7	739.1	58.3	1,942.2
Equity	469.7	8.9	478.6	298.2	(34.4)	263.8	(5.7)	736.7
Liabilities	597.3	68.9	666.2	439.2	36.1	475.3	64.0	1,205.5
Average full-time equivalent staff	454	44	498	569	3	572	21	1,091

DKK million	2010								
	Western Europe			Eastern Europe			Eastern Europe, total	Discontinued operations*	Reporting segments
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total			
Revenue, external	624.9	185.9	810.8	359.6	15.1	374.7	69.0	1,254.5	
Revenue, internal	124.4	0	124.4	11.8	0	11.8	0	136.2	
EBITDA	49.1	(11.5)	37.6	3.3	(9.3)	(6.0)	(10.5)	21.1	
Depreciation and amortisation	(69.9)	(1.6)	(71.5)	(46.1)	(0.2)	(46.3)	(0.9)	(118.7)	
EBITA	(20.8)	(13.1)	(33.9)	(42.8)	(9.5)	(52.3)	(11.4)	(97.6)	
Impairment losses	0	(0.2)	(0.2)	(120.0)	0	(120.0)	0	(120.2)	
Operating profit (EBIT)	(20.8)	(13.3)	(34.1)	(162.8)	(9.5)	(172.3)	(11.4)	(217.8)	
Financial income	0.5	0.2	0.7	2.0	1.9	3.9	0	4.6	
Financial expenses	(13.9)	(1.9)	(15.8)	(40.1)	(1.3)	(41.4)	(0.3)	(57.5)	
Profit before tax**	(34.2)	(15.0)	(49.2)	(200.9)	(8.9)	(209.8)	(11.7)	(270.7)	
Non-current assets	583.0	24.0	607.0	732.4	1.2	733.6	8.6	1,349.2	
Investments in intangible assets and property, plant and equipment	13.4	1.9	15.3	14.4	1.2	15.6	1.2	32.1	
Assets	786.9	67.3	854.2	817.9	2.5	820.4	26.9	1,701.5	
Equity	282.2	6.8	289.0	95.5	(31.7)	63.8	6.3	359.1	
Liabilities	504.7	60.5	565.2	722.4	34.2	756.6	20.6	1,342.4	
Average full-time equivalent staff	446	49	495	629	16	645	19	1,159	

* See note 23.

** The H+H Group's consolidated profit before tax and management fee etc. Transactions between segments are carried out at arm's length.

3 Segment information – continued

Group

Reconciliation of revenue, profit before tax, assets and liabilities of reporting segments

Revenue	2011	2010
Segment revenue for the reporting segments	1,597.0	1,390.7
Revenue for other operating segments	0	0
Elimination of inter-segment sales	(158.2)	(136.2)
Revenue for discontinued operations	(129.0)	(69.0)
	1,309.8	1,185.5
Profit before tax		
Segment profit before tax for reporting segments	(93.8)	(270.7)
Profit for other operating segments	0	0
Elimination of inter-segment transactions	0	0
Impairment losses, non-reporting segment	0	(1.5)
Profit from discontinued operations	42.6	11.7
Non-allocated Group expenses, central functions	(1.6)	(14.0)
	(52.8)	(274.5)
Assets		
Total assets for reporting segments	1,942.2	1,701.5
Elimination of internal profit on assets	0	0
Other non-allocated assets, eliminations and similar	(303.2)	(47.4)
Assets relating to discontinuing operations	(58.3)	0
	1,580.7	1,654.1
Liabilities		
Total liabilities for reporting segments	1,205.5	1,342.4
Other non-allocated obligations, eliminations and similar	(114.2)	(413.8)
Liabilities relating to discontinuing operations	(64.0)	0
	1,027.3	928.6

Revenue in Denmark was DKK 104,603 thousand in 2011 (2010: DKK 83,082 thousand). Non-current assets in Denmark at year-end 2011 amounted to DKK 11,597 thousand (2010: DKK 20,862 thousand).

Key customers

None of the H+H Group's customers represented more than 10% of the H+H Group's total revenue in 2010 or 2011. The following countries represent more than 10% of revenue or non-current assets.

DKK million	2011		2010	
	Revenue	Non-current assets	Revenue	Non-current assets
UK	412.5	225.7	415.9	240.3
Germany	351.5	333.8	261.8	314.7
Poland	221.3	295.9	231.9	364.4
Russia	101.1	200.0	80.8	210.3
Czech Republic	62.7	152.6	58.8	169.0
Other countries and eliminations	160.7	162.0	136.3	41.9
	1,309.8	1,370.0	1,185.5	1,340.6

When presenting information on geographical areas, information on revenue is based on the legal entity.

Notes

4 Staff costs (DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Wages and salaries	238,541	246,833	21,639	21,943
Defined benefit plans, see note 18	5,697	12,719	0	0
Defined contribution plans	5,722	3,972	0	0
Share-based payment	807	510	619	252
Remuneration to the Board of Directors	2,025	1,825	2,025	1,825
Other staff costs	29,426	29,652	774	596
	282,218	295,511	16,057	24,616
Staff costs are recognised as follows:				
Production costs	166,216	151,978	0	0
Other external expenses	116,002	143,533	16,057	24,616
	282,218	295,511	16,057	24,616
Remuneration to the Executive Board:				
Michael Troensegaard Andersen:				
Salaries and fees	2,025	0	2,025	0
Bonus plans	0	0	0	0
Share-based payment	133	0	133	0
Hans Gormsen:				
Salaries and fees	717	2,866	717	2,866
Share-based payment	270	244	270	244
Termination benefit	0	5,330	0	5,330
Niels Eldrup Meidahl:				
Salaries and fees	1,654	125	1,654	125
Bonus plans	0	0	0	0
Share-based payment	75	0	75	0
	4,874	8,565	4,874	8,565
Remuneration to other senior executives:				
Salaries and fees	2,827	4,055	2,096	3,341
Bonus plans	85	0	85	0
Share-based payment	202	182	202	182
	3,114	4,237	2,383	3,523
Average full-time equivalent staff				
	1,084	1,156	14	16

Board of Directors

The annual general meeting on 14 April 2011 approved remuneration to the Chairman and Vice Chairman of the Board of DKK 600,000 (2010: DKK 500,000) and DKK 450,000 (2010: DKK 275,000) respectively for 2011. Remuneration to ordinary board members for 2011 was DKK 300,000 (2010: DKK 200,000). An extra fee for committee work was paid in addition to the remuneration for 2010, whereas the remuneration for 2011 includes committee work.

The Board of Directors comprised six members until the annual general meeting on 14 April 2011. One member did not stand for re-election at the annual general meeting; the remaining members were re-elected but no new member was elected to replace the person standing down.

Executive Board

Until 4 April 2011 the Executive Board comprised CEO Hans Gormsen and CFO Niels Eldrup Meidahl. Michael Troensegaard Andersen joined the Executive Board as CEO on 4 April 2011, with Hans Gormsen resigning at the same time, and the Executive Board subsequently comprised Michael Troensegaard Andersen and Niels Eldrup Meidahl.

Other senior executives

The group of other senior executives numbered two people throughout 2011.

4 Staff costs – continued

SHARE-BASED INCENTIVE SCHEMES

New matching share programme

In May 2011 a matching share programme for the Executive Board and certain key employees was launched. These officers purchased a total of 10,930 shares at market price in June 2011, which will trigger allocation of a further 32,790 H+H shares in June 2014 if all of the vesting criteria are fulfilled.

The vesting criteria relate to employment in the vesting period, the Group's operating profit and other financial targets. The value of the programme at inception in June 2011 is estimated at DKK 1.9 million and will be recognised as staff costs until the expiry of the vesting period in June 2014.

The fair value of the programme has been determined as the maximum number of shares which can be granted. The share price used in calculating the value of the programme is the average price of the shares in June 2011. The programme is currently not hedged by purchase of treasury shares.

Previous option programme

In May 2007, the Board of Directors of H+H International A/S established a share option plan for the Executive Board and other senior executives with a vesting period of 2007-2009. No option plan was adopted for 2010. The Board of Directors of H+H International A/S is not included in the company's share option plan.

Each share option entitles the holder to buy one share. The exercise price is calculated as the average price in the ten business days after the publication of the annual report for the financial year to which the share options relate, plus 20%. The options are exercisable during a one-year period beginning three years and ending four years after the publication of the annual report for the financial year to which

the share options relate. Unless specifically agreed as part of a termination agreement, the right to be granted and to exercise share options is conditional upon the option holder's employment with the company not having ceased, either due to the option holder having given notice of termination or breach of contract on the part of the option holder. There are no other vesting conditions. The fair value of the share option plan has been calculated at DKK 4.5 million in total, and breaks down into DKK 1.5 million for the 2007 grant, DKK 1.5 million for the 2008 grant and DKK 1.5 million for the 2009 grant.

The share option plans that are expected to be exercisable are substantially hedged by treasury shares at the date of final pricing, however no hedging has been carried out in recent years as the relatively large drop in the company's share price means that the probability of the oldest options still exercisable being used before expiry of the exercise period is considered very low. Treasury shares amounted to 20,489 shares at year-end 2011 and 2010. The outstanding options have an average remaining contractual life of 1.8 years (2010: 2.6 years) and an exercise price in the range of DKK 79-638 per option (2010: DKK 79-638 per option). The cost recognised in the 2011 income statement in respect of share options is DKK 484 thousand (2010: DKK 509 thousand).

Notes

4 Staff costs – continued

(DKK '000)	Total		Former Executive Board		Other employees	
	Number	Avg exercise price	Number	Avg exercise price	Number	Avg exercise price
Outstanding options						
Outstanding options at 31 December 2009	83,037		22,191		60,846	
Additions	0		0		0	
Forfeited	0		0		0	
Expired	(11,298)		(2,850)		(8,448)	
Outstanding options at 31 December 2010	71,739		19,341		52,398	
Additions	0		0		0	
Forfeited	0		0		0	
Expired	(8,850)		(2,703)		(6,147)	
Outstanding options at 31 December 2011	62,889		16,638		46,251	
Breakdown of outstanding options by exercise period:						
Outstanding option plans at 31 December 2010						
2009-2011	8,850	476	2,703	476	6,147	476
2010-2012	13,032	638	3,813	638	9,219	638
2011-2012	15,975	541	4,275	541	11,700	541
2012-2013	15,750	93	4,275	93	11,475	93
2013-2014	18,132	79	4,275	79	13,857	79
Total	71,739		19,341		52,398	
Outstanding option plans at 31 December 2011						
2010-2012	13,032	638	3,813	638	9,219	638
2011-2012	15,975	541	4,275	541	11,700	541
2012-2013	15,750	93	4,275	93	11,475	93
2013-2014	18,132	79	4,275	79	13,857	79
Total	62,889		16,638		46,251	

There was a significant dilution of the share options in connection with the company's rights issue in December 2009. The number of options and the exercise price have been recalculated as a result of the rights issue. This adjustment is equivalent to three times the number of share options. The exercise price has also been adjusted. The total value of the options is unchanged.

4 Staff costs – continued

Cash-based incentive schemes

The Executive Board and the company's senior executives have the opportunity to earn an annual cash bonus. The maximum bonus payment is 40% of the person's fixed annual salary in the year in which the bonus was earned. The earning of bonuses is dependent on EBITDA in the year in which the bonus was earned, and to a lesser extent on certain qualitative targets related to the company's strategy, and the bonus is therefore not guaranteed. The bonus payment will depend on EBITDA relative to budgeted EBITDA, with the bonus payment being calculated on a straight-line basis within a fixed range for budget performance. Bonus earned is paid eight days after the adoption by the annual general meeting of the annual report for the year in which the bonus was earned. In case of termination of employment, regardless of the cause, the person in question is entitled to proportionately earned bonus up to the date of termination of his or her employment.

The results for 2010 and 2011 have not led to any entitlement to a cash bonus for the Executive Board. A bonus has been paid to one senior executive in 2011, which was not the case in 2010. The bonus was awarded in connection with the successful implementation of the Lean programme.

Management's terms of employment

The Executive Board and other senior executives in H+H International A/S may resign with six months' notice. The company may dismiss the Executive Board and other senior executives with 12 months' notice. Under normal circumstances, if the company gives notice to the Executive Board and other senior executives without reason, those concerned are entitled to a termination benefit equivalent to 12 months' fixed salary. However, if a shareholder acquires the majority of votes in the company as a result of a compulsory or voluntary offer in accordance with the rules governing this in the Danish Securities Trading Act, or if the company's operations are transferred to a new owner, the period of notice the Executive Board must give the company is shortened to three months for a period of two years. In a corresponding takeover situation, the company's Executive Board has a claim to twice the termination benefit, equivalent to 24 months' fixed salary.

5 Other operating income and expenses

(DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Management fee	0	0	15,000	15,000
Gain on disposal of property, plant and equipment	5,951	3,185	386	542
Loss on disposal of property, plant and equipment	(371)	(338)	0	0
Expenses in connection with competition case	(1,514)	0	(1,514)	0
Additional energy tax relating to 2008 and 2009	(2,384)	0	0	0
Rental income	2,136	0	0	0
Transaction costs	0	(635)	0	(635)
Special costs related to closure of business units and terminated employees	(1,730)	(11,433)	0	0
Insurance compensation received	0	1,927	0	0
Other	2,019	(296)	0	0
	4,107	(7,590)	13,872	14,907

6 Depreciation and amortisation

(DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Other intangible assets	2,911	3,282	0	0
Land and buildings	19,022	19,232	0	0
Plant and machinery	61,263	76,124	0	0
Fixtures and fittings, tools and equipment	18,742	20,274	283	950
	101,938	118,912	283	950

Notes

7 Impairment losses	Group		Parent company	
	2011	2010	2011	2010
(DKK '000)				
Plant and machinery	0	78,982	0	0
Fixtures and fittings, tools and equipment	0	42,715	0	0
Impairment losses in subsidiaries	0	0	354,204	43,167
	0	121,697	354,204	43,167

In 2010 assets in Russia were written down by DKK 120 million due to lower capacity utilisation and prices than originally anticipated. Impairment losses have also been recognised in connection with the closures in Norway, Ukraine and the Baltic States.

In connection with the closing of the financial statements for 2011, it was found that the recoverable amount of some of the Group's companies was lower than the parent company's original cost. As a result, significant impairment losses were recognised for the UK, Russia, the Czech Republic and Jämerä in the parent company financial statements. However, these impairment losses have no bearing on the consolidated financial statements.

8 Financial income	Group		Parent company	
	2011	2010	2011	2010
(DKK '000)				
Interest income	192	109	0	7
Interest income from subsidiaries	0	0	32,466	33,429
Realised foreign exchange gain relating to loans to subsidiaries	0	0	109	4,024
Exchange rate adjustments relating to loans to subsidiaries	0	0	0	6,436
Other exchange rate adjustments	301	13,909	0	0
Other financial income	867	963	0	508
	1,360	14,981	32,575	44,404

The H+H Group's total interest income in 2011 amounted to DKK 192 thousand (2010: DKK 109 thousand). The parent company's total interest income in 2011 amounted to DKK 32,466 thousand (2010: DKK 33,436 thousand).

9 Financial expenses	Group		Parent company	
	2011	2010	2011	2010
(DKK '000)				
Interest expenses	34,487	34,653	12,109	13,289
Interest expenses to subsidiaries	0	0	1,373	338
Exchange rate adjustments relating to loans to subsidiaries	0	0	11,398	0
Other exchange rate adjustments	2,545	2,319	1,774	954
Foreign exchange losses on derivatives	81	0	0	0
Write-down of intragroup loans	0	0	5,521	5,522
Other financial expenses	6,567	7,064	6,033	6,217
	43,680	44,036	38,208	26,320

The H+H Group's total interest expenses in 2011 amounted to DKK 34,487 thousand (2010: DKK 34,653 thousand). The parent company's total interest expenses in 2011 amounted to DKK 13,482 thousand (2010: DKK 13,627 thousand).

10 Tax (DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Tax on profit from continuing operations	16,094	(11,571)	(1,509)	9,500
Tax on other comprehensive income	(1,228)	3,365	0	0
	14,866	(8,206)	(1,509)	9,500
Tax on continuing operations can be broken down as follows:				
Current tax for the year	4,871	12,866	0	0
Adjustment of deferred tax	11,585	(22,554)	1,509	9,500
Prior-year adjustments	(1,590)	1,482	0	0
	14,866	(8,206)	1,509	9,500
Current joint taxation contribution for the year	0	0	0	0
	14,866	(8,206)	1,509	9,500
Tax on profit from continuing operations can be broken down as follows:				
Calculated 25% (2010: 25%) tax on profit from ordinary activities	(13,201)	(68,622)	(93,240)	(12,065)
Less tax in foreign Group entities compared with 25% rate (2010: 25%)	5,186	16,923	0	0
Tax effect of:				
Not capitalised deferred tax asset	11,741	13,675	3,236	9,350
Write-downs of deferred tax assets	25,677	10,000	0	0
Reversals of deferred tax asset write-downs	(10,784)	0	0	0
Other adjustments	(2,746)	1,329	(1,509)	0
Tax on changes in equity	(1,228)	3,365	0	0
Non-deductible expenses	2,212	13,642	90,073	12,215
Prior-year adjustments	(1,590)	1,482	0	0
Non-taxable income	(401)	0	(69)	0
	14,866	(8,206)	(1,509)	9,500

Tax on other comprehensive income	Group					
	2011			2010		
	Before tax	Tax income/ expense	After tax	Before tax	Tax income/ expense	After tax
Exchange rate adjustments, foreign entities	(56,602)	1,228	(55,374)	41,057	(3,365)	37,692
	(56,602)	1,228	(55,374)	41,057	(3,365)	37,692

Notes

11 Earnings per share (EPS)	Group	
(DKK '000)	2011	2010
Average number of shares	9,810,000	9,810,000
Average number of treasury shares	(20,489)	(20,489)
Average number of outstanding shares	9,789,511	9,789,511
Dilution from share options	0	0
Average number of outstanding shares, diluted	9,789,511	9,789,511
Adjustment of number of DKK 50 shares		
Adjusted average number of outstanding shares	9,789,511	9,789,511
Adjusted average number of outstanding shares, diluted	9,789,511	9,789,511
Profit for the year	(117,534)	(270,478)
Attributable to non-controlling interests	0	0
Shareholders in H+H International A/S	(117,534)	(270,478)
Earnings per share (EPS)	(12.01)	(27.63)
Diluted earnings per share (EPS-D)	(12.01)	(27.63)

See note 23 for earnings and diluted earnings per share from discontinued operations.

Earnings per share from continuing and discontinued operations respectively for 2011 are calculated on the basis of the equivalent key figures used to calculate earnings per share.

(DKK '000)	2011	2010
Shareholders in H+H International A/S's share of:		
Profit from discontinued operations	(48,637)	(7,563)
Profit from continuing operations	(68,897)	(262,915)
Profit for the year	(117,534)	(270,478)

The calculation of diluted earnings per share excludes 62,889 share options (2010: 71,739), which are out of the money but may potentially dilute earnings per share in the future.

In accordance with IAS 33, an adjustment has been made to the calculation of earnings per share (EPS) and diluted earnings per share (EPS-D) such that the average number of shares has been adapted to a face value of DKK 50.

12 Intangible assets and property, plant and equipment	Parent company			
(DKK '000)	2011		2010	
	Other intangible assets	Fixtures and fittings, tools and equipment	Other intangible assets	Fixtures and fittings, tools and equipment
Total cost at 1 January	6,445	1,681	3,082	4,329
Additions during the year	1,612	316	3,363	559
Disposals during the year	(1,795)	(895)	0	(3,207)
Total cost at 31 December	6,262	1,102	6,445	1,681
Total depreciation and amortisation at 1 January	0	784	0	2,447
Depreciation and amortisation of assets disposed of	0	(553)	0	(2,613)
Depreciation and amortisation for the year	0	283	0	950
Total depreciation and amortisation at 31 December	0	514	0	784
Carrying amount	6,262	588	6,445	897

12 Intangible assets and property, plant and equipment – continued
Group

(DKK '000)	2011					
	Goodwill	Other intangible assets	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction
Total cost at 1 January 2011	88,388	44,812	620,100	1,344,060	267,095	30,116
Transfers	0	2,154	8,915	8,190	2,020	(21,279)
Foreign exchange adjustments, year-end rate	(6,615)	(850)	(16,200)	(14,179)	(5,923)	(302)
Additions during the year	0	4,817	396	15,135	9,261	8,143
Disposals during the year	0	(1,907)	(5,168)	(2,188)	(6,686)	0
Transferred to assets held for sale	0	(19,395)	(47,801)	(17,107)	(2,093)	(387)
Total cost at 31 December 2011	81,773	29,631	560,242	1,333,911	263,674	16,291
Total depreciation and amortisation at 1 January 2011	0	16,605	152,311	783,829	129,908	7,933
Foreign exchange adjustments, year-end rate	0	(576)	(1,042)	144	(2,585)	0
Foreign exchange adjustments for the year	0	(74)	(489)	(541)	(395)	0
Depreciation and amortisation of assets disposed of	0	(31)	0	(1,314)	(4,950)	0
Depreciation and amortisation for the year	0	3,380	19,134	61,263	18,801	0
Impairment losses for the year	0	0	0	0	0	0
Transferred to assets held for sale	0	(3,010)	(7,874)	(17,107)	(609)	0
Total depreciation, amortisation and impairment losses at 31 December 2011	0	16,294	162,040	826,274	140,170	7,933
Carrying amount	81,773	13,337	398,202	507,637	123,504	8,358
Of which, assets held under finance leases	0	0	0	21	193	0

Group
2010

	Goodwill	Other intangible assets	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction
Total cost at 1 January 2010	85,902	45,981	599,214	1,291,830	253,603	22,517
Transfers	0	2,922	788	149	392	(4,251)
Foreign exchange adjustments, year-end rate	2,486	399	16,873	47,965	10,504	1,037
Additions during the year	0	4,997	3,409	6,403	10,006	11,548
Disposals during the year	0	(9,487)	(184)	(2,287)	(7,410)	(735)
Total cost at 31 December 2010	88,388	44,812	620,100	1,344,060	267,095	30,116
Total depreciation and amortisation at 1 January 2010	0	22,151	129,399	617,987	71,074	7,419
Foreign exchange adjustments, year-end rate	0	181	3,402	12,872	917	514
Foreign exchange adjustments for the year	0	18	52	(429)	(410)	0
Depreciation and amortisation of assets disposed of	0	(9,465)	0	(1,707)	(4,861)	0
Depreciation and amortisation for the year	0	3,720	19,458	76,124	20,473	0
Impairment losses for the year	0	0	0	78,982	42,715	0
Total depreciation, amortisation and impairment losses at 31 December 2010	0	16,605	152,311	783,829	129,908	7,933
Carrying amount	88,388	28,207	467,789	560,231	137,187	22,183
Of which, assets held under finance leases	0	0	399	111	220	0

Notes

12 Intangible assets and property, plant and equipment – continued

Interest totalling DKK 0 thousand was capitalised in 2011 (2010: DKK 0 thousand).

Development costs totalling DKK 0 thousand were capitalised in 2011 (2010: DKK 0 thousand).

Development costs in the region of DKK 5 million were expensed in 2010 and 2011.

Impairment test of intangible assets

On 31 December 2011, management tested the carrying amount of goodwill for impairment based on the allocation of the cost of goodwill to the cash-generating units. Of total goodwill of DKK 81,773 thousand (2010: DKK 88,388 thousand), DKK 53,590 thousand (2010: DKK 60,145 thousand) related to the Eastern European segment, while DKK 28,183 thousand (2010: DKK 28,242 thousand) related to the Western European segment.

Management is of the opinion that the lowest level of cash-generating unit to which the carrying amount of goodwill can be allocated is at company level in each country.

The recoverable amount was defined as the value in use for the purpose of impairment testing.

In general the impairment tests were based on the budget for 2012 and strategy projections for 2013-2019, as approved by management. Average annual growth in revenue of 6.5-9.9% has been assumed for the period 2012-2019. Growth has been assessed by local and Group management. An assumed growth rate of 2-3% p.a. has been used for the years after 2017. The growth rate is not expected to exceed the average long-term growth rate in the H+H Group's markets. A rising gross margin has been estimated for the period 2012-2019, after which it is expected to be constant. The rising gross margin assumes more expedient utilisation of production capacity as well as price increases. A discount rate after tax (WACC) of 6.6-10.4% has been applied. The WACC is based on generally recognised principles and assumptions provided by external analysts.

The assumptions made can be summarised as follows:

	Poland	Germany	Czech Republic
Carrying amount of goodwill at 31 December 2011	50,944	28,183	2,646
Estimated average annual growth in revenue 2012-2017 (CAGR)	8.3%	6.5%	9.9%
Estimated gross margin 2012-2017	14-27%	25-27%	25-35%
WACC	10.4%	6.6%	8.4%

* For Poland the forecast period has been extended to 2019. CAGR for the period 2012-2019 is 8.3%.

The impairment tests performed do not indicate any need for impairment losses. Based on the assumptions above, management considers the recoverable amount to exceed the carrying amount of goodwill.

If the assumptions above are not met, it could result in impairment. The main assumptions relate to annual growth in revenue and gross margin.

Impairment tests of non-current assets

The Group's key non-current assets were tested for impairment in 2011, including with regard to assets in Poland, Germany, the UK, Russia, the Czech Republic and Finland which together represent approx. 97% of the Group's total non-current assets at 31 December 2011.

The impairment tests were based on the budget for 2012 and strategy projections for 2013-2019, as approved by management. Average annual growth in revenue of 3.1-17.9% has been assumed for the period 2012-2019. Growth has been assessed by local and Group management. An assumed growth rate of 2.0-3.5% p.a. has been used for the years after 2017. The growth rate is not expected to exceed the average long-term growth rate in the H+H Group's markets. A rising gross margin has been assumed for the period 2012-2019, after which it is expected to be constant.

12 Intangible assets and property, plant and equipment – continued

The rising gross margin assumes more expedient utilisation of production capacity and weak price increases. A discount rate after tax (WACC) of 6.6-17.8% has been applied. The WACC is based on generally recognised principles and assumptions provided by external analysts.

Assumed annual growth in Russia and the Czech Republic is 17.9% and 9.9% respectively, which is because in Russia there is an almost new factory in a new market and in the Czech Republic a newly converted factory and the level of market penetration is currently low.

The assumptions made can be summarised as follows:

	Poland*	Germany	UK	Russia	Czech Republic	Finland
Carrying amount of property, plant and equipment at 31 December 2011	237,538	260,159	224,120	182,152	149,662	15,694
Estimated average annual growth in revenue 2012-2017 (CAGR)	8.3%	6.5%	10.2%	17.9%	9.9%	3.1%
Estimated gross margin 2012-2017	14-27%	25-27%	18-22%	24-28%	25-35%	18-20%
WACC	10.4%	6.6%	8.4%	17.8%	8.4%	7.9%

* For Poland the forecast period has been extended to 2019. CAGR for the period 2012-2019 is 8.3%.

The impairment tests performed at 31 December 2011 do not indicate any need for impairment losses, apart from the special circumstances mentioned below. Based on the assumptions above, management considers the recoverable amount to exceed the carrying amount of property, plant and equipment.

If the assumptions above are not met, it could result in impairment. The main assumptions relate to annual growth in revenue and gross margin.

During 2010, the impairment test for the cash-generating unit Russia resulted in recognition of an impairment loss of DKK 120 million as a result of lower capacity utilisation and prices than originally anticipated.

As a result of the economic situation for the Group, there is a particular risk that the future will bring further impairment losses in some subsidiaries. The assets in Poland, the Czech Republic and Russia are the most exposed to an impairment loss in relation to the assumptions mentioned above.

On 31 December 2011 the recoverable amount for the cash-generating unit Poland exceeds the carrying amount by DKK 177 million. Key assumption sensitivities are illustrated below. From the sensitivity analyses carried out it appears that key assumptions could change as stated below without the need for impairment losses:

- Average annual growth in revenue in the period 2012-2019 (CAGR) can decrease by 1.0 percentage point to 7.3%.
- WACC can increase by 3.0 percentage points to 13.4% in combination with 1% growth in the terminal period. With 0% growth in the terminal period, WACC can increase by 2.5 percentage points without the need for impairment losses.
- Growth in the gross margin in the period 2012-2019 can decrease by 6.0 percentage points to an interval of 9-21%.

The recoverable amount of the cash-generating units Czech Republic and Russia is on par with the carrying amount at 31 December 2011.

This means that negative changes in the selected assumptions could necessitate impairment losses.

Notes

13 Deferred tax, assets	Group		Parent company	
	2011	2010	2011	2010
(DKK '000)				
Deferred tax assets at 1 January	55,183	44,348	0	7,991
Foreign exchange adjustments	(470)	1,031	0	0
Change in deferred tax	(8,306)	9,804	0	(7,991)
Prior-year adjustments	0	0	0	0
Transferred to assets held for sale	(6,057)	0	0	0
Deferred tax assets at 31 December	40,350	55,183	0	0
Deferred tax assets relate to:				
Non-current assets	(16,103)	8,441	0	0
Current assets	4,151	969	0	0
Liabilities	(3,586)	159	0	0
Tax loss carry-forwards	55,888	45,614	0	0
	40,350	55,183	0	0

Deferred tax, liabilities	Group		Parent company	
	2011	2010	2011	2010
Deferred tax liabilities at 1 January	32,085	46,282	8,773	7,264
Foreign exchange adjustments	(936)	1,599	0	0
Change in deferred tax	3,279	(15,796)	(1,509)	1,509
Deferred tax liabilities at 31 December	34,428	32,085	7,264	8,773
Provisions for deferred tax relate to:				
Non-current assets	28,929	40,181	0	1,509
Current assets	(547)	(15,360)	0	0
Tax loss carry-forwards	(1,218)	0	0	0
Retaxation balance relating to discontinued joint taxation	7,264	7,264	7,264	7,264
	34,428	32,085	7,264	8,773

No provision has been made in respect of deferred tax in connection with the share option plan, as the price of the shares at the balance sheet date was less than the exercise price of the options.

No deferred tax has been recognised on the difference between the cost of equity investments and the estimated fair value. This is because the shareholdings in the equity investments are all considered to be 'shares in a subsidiary', and any gain/loss is therefore not taxable.

The tax value of loss carry-forwards has been recognised as deferred tax assets in the companies where it is considered likely that this can be utilised in future earnings. The tax value of loss carry-forwards of DKK 70 million at 31 December 2011 (2010: DKK 38 million) has not been recognised as deferred tax assets, as these are not considered likely to be utilised.

14 Investments in subsidiaries	Parent company	
	2011	2010
(DKK '000)		
Acquisition cost at 1 January	1,500,943	1,448,807
Capital contribution in subsidiaries	765,075	52,283
Disposals acquisition cost	(958,718)	(147)
Cost at 31 December	1,307,300	1,500,943
Impairment losses at 1 January	371,871	328,704
Reversal of disposals	(453,183)	0
Impairment losses, investments	354,204	43,167
Impairment losses at 31 December	272,892	371,871
Carrying amount at 31 December	1,034,408	1,129,072

The cost of investments in subsidiaries was tested for impairment at the end of 2010 and 2011. The recoverable amount of the investments at 31 December 2011 is based on the value in use, which has been determined using expected net cash flows based on estimates for the years 2012-2017 (or 2012-2019 for Poland) and a WACC of 6.6-17.8%. The weighted average growth rate used for extrapolating expected future net cash flows for the years after 2017 has been estimated at 2.0-3.5%. It is estimated that the growth rate will not exceed the long-term average growth rate in the company's markets.

In connection with the closing of the financial statements for 2011, it was found that the recoverable amount of some of the Group's companies was lower than the parent company's original cost. As a result, significant impairment losses were recognised for the UK, Russia, the Czech Republic and Jämerä in the parent company financial statements. However, these impairment losses have no bearing on the consolidated financial statements.

		2011	2010
	Registered office	Equity interest, %	Equity interest, %
KWAY Holding Limited*	UK	100	100
H+H UK Holding Limited	UK	0	100
H+H Deutschland GmbH	Germany	100	100
H+H Danmark A/S	Denmark	100	100
HHI A/S af 3. maj 2004	Denmark	100	100
H+H Finland Oy	Finland	100	100
Jämerä-kivitalot Oy	Finland	100	100
H+H Sverige AB	Sweden	100	100
H+H Norge AS	Norway	100	100
H+H Polska Sp. z o.o.	Poland	100	100
H+H Česká republika s.r.o.	Czech Republic	100	100
H+H Slovenská republika s.r.o.	Slovakia	100	100
H+H Ukraina TOV	Ukraine	100	100
H+H UA TOV	Ukraine	100	100
OOO H+H	Russia	100	100
H+H Belgien SPRL	Belgium	100	100
H+H Nederland BV	Netherlands	100	100
Diverse af 29.9.2011 ApS	Denmark	100	0

The above list does not include indirectly owned companies without any activities.

* This activity comprises ownership of H+H UK Limited.

Notes

15 Inventories/production costs (DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Raw materials and consumables	49,167	50,131	0	0
Finished goods and goods for resale	141,824	131,648	0	0
	190,991	181,779	0	0
Write-downs recognised in the inventories above have developed as follows:				
Write-downs at 1 January	12,448	14,403	0	0
Foreign exchange adjustments	(13)	393	0	0
Write-downs for the year	1,008	6,584	0	0
Realised during the year	(6,943)	(1,909)	0	0
Reversals	0	(7,023)	0	0
Inventory write-downs, year-end	6,500	12,448	0	0
Value of inventories recognised at net realisable value	0	0	0	0
Wages and salaries	166,216	151,978	0	0
Production overheads	97,305	96,908	0	0
Cost of sales	762,922	685,390	0	0
Write-downs for the year	1,008	6,584	0	0
Reversals of inventory write-downs	0	7,023	0	0
Total production costs	1,027,451	947,883	0	0
16 Receivables				
(DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Trade receivables	87,821	78,275	0	0
Other receivables	11,684	12,180	677	1,117
	99,505	90,455	677	1,117
Write-downs of impaired receivables have developed as follows:				
Write-downs at 1 January	6,573	5,090	0	0
Foreign exchange adjustments	(208)	176	0	0
Write-downs for the year	950	2,350	0	0
Realised during the year	(1,670)	(820)	0	0
Reversals	(149)	(223)	0	0
Transferred to assets held for sale	(350)	0	0	0
Write-downs relating to receivables, year-end	5,146	6,573	0	0

Receivables that are not past due are deemed to predominantly have a high credit quality.

Security is not normally required in respect of claims. The Group's customers are typically large well-consolidated builders' merchants and housebuilders, and customers are credit rated on a regular basis. Only limited security had been provided at 31 December 2011.

Receivables are written down directly if the value has been impaired, for example as a result of suspension of payments, compulsory winding-up or similar, based on an individual assessment of the individual debtor's ability to pay. Write-downs are made to estimated net realisable value. The income statement for 2011 recognises write-downs and losses on bad and doubtful debts of DKK 801 thousand (2010: DKK 2,127 thousand).

16 Receivables – continued	Group		Parent company	
	2011	2010	2011	2010
(DKK '000)				
Age analysis of trade receivables:				
Not past due	67,882	46,482	0	0
0-30 days	14,109	25,046	0	0
30-90 days	5,569	5,226	0	0
Over 90 days	261	1,521	0	0
	87,821	78,275	0	0
Write-downs relating to receivables, year-end	5,146	6,573	0	0

Write-down of receivables by geographical region

	2011					Total
	UK	Germany Netherlands Belgium Denmark	Norway Sweden Finland	Eastern Europe		
Write-downs at 1 January	885	1,456	1,277	2,955		6,573
Foreign exchange adjustments	29	(2)	(14)	(221)		(208)
Write-downs for the year	232	179	258	281		950
Realised during the year	0	(671)	(832)	(167)		(1,670)
Reversals	(86)	(15)	0	(48)		(149)
Transferred to assets held for sale	0	0	(350)	0		(350)
Write-downs relating to receivables, year-end	1,060	947	339	2,800		5,146

	2010					Total
	UK	Germany Netherlands Belgium Denmark	Norway Sweden Finland	Eastern Europe		
Write-downs at 1 January	807	1,006	1,047	2,230		5,090
Foreign exchange adjustments	43	3	42	88		176
Write-downs for the year	35	670	458	1,187		2,350
Realised during the year	0	0	(270)	(550)		(820)
Reversals	0	(223)	0	0		(223)
Write-downs relating to receivables, year-end	885	1,456	1,277	2,955		6,573

Trade receivables which were past due at 31 December 2011 but not impaired are also included, as follows:

	Group		Parent company	
	2011	2010	2011	2010
Age analysis of trade receivables:				
0-30 days	14,109	25,046	0	0
30-90 days	5,569	5,226	0	0
Over 90 days	0	0	0	0
	19,678	30,272	0	0

Notes

17 Share capital and treasury shares

	Number		Nominal value, DKK 1,000	
	2011	2010	2011	2010
1 January	9,810,000	9,810,000	490,500	490,500
31 December – fully paid	9,810,000	9,810,000	490,500	490,500

The share capital comprises 9,810,000 shares of nominal value DKK 50. All the shares have the same rights, with each share carrying 10 votes at the general meeting.

Treasury shares

	Number	Nominal value, DKK 1,000	% of share capital, year-end
Holding at 1 January 2010	20,489	1,024	0.2
Purchased during the year	0	0	0
Sold during the year	0	0	0
Holding at 31 December 2010	20,489	1,024	0.2
Purchased during the year	0	0	0
Sold during the year	0	0	0
Holding at 31 December 2011	20,489	1,024	0.2

All the treasury shares are owned by H+H International A/S.

Treasury shares are acquired partly in order to hedge liabilities related to the company's option plans.

At 31 December 2011 a total of 62,889 shares are required in connection with the company's option plan (2010: 71,739 shares). Management has chosen not to hedge all the outstanding options as it is unlikely that all the options will be exercised.

The company's matching share programme is not hedged by treasury shares.

18 Pension obligations

Under defined contribution plans, the employer is under obligation to pay a specific contribution (e.g. a fixed amount or a fixed percentage of salary). Under defined contribution plans, the H+H Group does not bear the risk associated with future development in interest rates, inflation, mortality and disability.

Under defined benefit plans, the employer is under obligation to pay a specific amount (e.g. a retirement pension as a fixed amount or a fixed percentage of final salary). Under defined benefit plans, the H+H Group bears the risk associated with future developments in interest rates, inflation, mortality and disability.

Danish entities' pension obligations are insured. Some foreign entities' pension obligations are also insured. Foreign entities that are not insured or only insured in part (defined benefit plans) calculate their obligation actuarially at present value at the balance sheet date. These pension plans are fully or partly funded in pension funds for the employees. In the consolidated financial statements, an amount of DKK 65,457 thousand (2010: DKK 80,585 thousand) has been recognised under liabilities in respect of the H+H Group's obligations to existing and former employees after deduction of the assets associated with the plans.

In the consolidated income statement, an amount of DKK 5,722 thousand (2010: DKK 3,972 thousand) has been recognised in respect of expenses relating to insured plans (defined contribution). For non-insured plans (defined benefit plans), an amount of DKK 5,697 thousand (2010: DKK 12,719 thousand) has been recognised in the consolidated income statement in respect of expenses.

The H+H Group has defined benefit plans in the UK and Germany. The UK pension plans are managed by a pension fund to which payments are made, whereas the German pension plans are unfunded.

H+H Celcon Pension Fund is supervised by an independent fund manager, H+H Celcon Pension Fund Trustee Limited. In accordance with the legislation governing pension funds, among other things the fund manager must ensure that a limited actuarial calculation of the pension obligations is carried out each year and a more detailed actuarial calculation of the pension obligations every three years. A detailed actuarial calculation carried out in April 2008 showed an unfunded pension obligation of DKK 128 million (GBP 15.6 million). Based on this calculation, on 26 June 2009 H+H UK Limited and H+H Celcon Pension Fund Trustee Limited entered into an agreement on the payment of contributions to cover the unfunded pension obligation (Schedule of Contributions). The agreement sets out a 15-year repayment profile under which H+H UK Limited will pay DKK 1.0 million (GBP 0.12 million) per year in the period April 2009 – March 2011 and DKK 18 million (GBP 2.17 million) per year in the period April 2011 – March 2023.

The pension plan was closed to new employees and future payments in 2011. This has resulted in a curtailment gain of DKK 5.7 million (GBP 0.7 million), which is recognised under staff costs.

Notes

18 Pension obligations – continued	Group	
(DKK '000)	2011	2010
Pensions and similar obligations:		
Present value of fully or partly funded defined benefit plans	504,989	462,130
Fair value of plan assets	349,094	312,367
Underfunding	155,895	149,763
Unrecognised actuarial losses/(gains) relating to fully or partly funded plans	98,443	76,503
Present value of unfunded defined benefit plans	8,341	8,162
Unrecognised actuarial losses/(gains) relating to unfunded plans	(336)	(837)
Net obligation recognised in the balance sheet	65,457	80,585
Development in present value of fully or partly funded defined benefit obligation:		
Obligation at 1 January	462,130	420,689
Foreign exchange adjustments	13,540	22,089
Pension costs relating to the current financial year	4,630	4,250
Calculated interest on obligation	25,110	25,719
Actuarial losses (gains)	25,247	7,281
Curtailment gains	(7,018)	0
Pensions paid	(18,650)	(17,898)
Obligation at 31 December	504,989	462,130
Development in present value of unfunded defined benefit obligation:		
Obligation at 1 January	8,162	7,885
Foreign exchange adjustments	0	15
Pension costs relating to the current financial year	0	42
Calculated interest on obligation	345	397
Actuarial losses (gains)	303	323
Pensions paid	(469)	(500)
Obligation at 31 December	8,341	8,162

18 Pension obligations – continued

(DKK '000)	Group	
	2011	2010
Development in fair value of pension assets:		
Pension assets at 1 January	312,367	274,453
Foreign exchange adjustments	9,426	14,355
Expected return on plan assets	18,667	17,689
Actuarial gains (losses)	6,177	14,919
The company's contributions to plan assets	21,107	8,849
Pensions paid	(18,650)	(17,898)
Pension assets at 31 December	349,094	312,367
Pension costs relating to the current financial year		
Curtailment gains	(5,721)	0
Calculated interest on obligation	25,455	26,116
Expected return on plan assets	(18,667)	(17,689)
Total amount recognised in respect of defined benefit plans	5,697	12,719
Total amount recognised in respect of defined contribution plans	5,722	3,972
Total amount recognised in the income statement	11,419	16,691

The cost has been recognised in the income statement under staff costs. Costs recognised under production costs amount to DKK 3,109 thousand (2010: DKK 4,544 thousand), and costs recognised under other external expenses amount to DKK 8,310 thousand (2010: DKK 12,147 thousand).

	Group	
	2011	2010
Pension assets can be broken down as follows:		
Shares	139,987	124,947
Bonds	207,013	183,984
Cash	2,094	3,436
Total	349,094	312,367
Return on plan assets:		
Actual return on plan assets	24,844	32,608
Expected return on plan assets	18,667	17,689
Actuarial gain (loss) on plan assets	6,177	14,919
Discount rate (avg)		
Expected return on plan assets	4.90%	5.50%
Future rate of salary increases	4.40%	5.00%

The expected return on plan assets has been determined by an external actuary on the basis of the composition of the assets and the general economic outlook.

Notes

18 Pension obligations – continued

(DKK '000)	Group				
	2011	2010	2009	2008	2007
The amounts for the Group's pension obligations for the current and previous years are as follows:					
Actuarially determined pension obligations	504,989	462,130	420,689	324,340	445,752
Pension assets	349,090	312,368	274,453	228,932	334,802
Present value of unfunded defined benefit plans	8,341	8,162	7,885	7,017	7,338
Over-/underfunding	(164,240)	(157,924)	(154,121)	(102,425)	(108,288)
Empirical changes to obligations	25,550	8,075	65,520	(30,357)	(23,149)
Empirical changes to pension assets	6,177	14,919	24,024	(52,032)	(8,342)

19 Other provisions

(DKK '000)	Group			
	2011	2010	2011	2010
	Non-current portion		Current portion	
Warranty obligations at 1 January	5,199	4,454	0	0
Foreign exchange adjustments	(54)	147	0	0
Transfers	0	0	0	0
Provisions for the year	50	981	0	0
Utilised during the year	0	(126)	0	0
Reversals during the year	(3,148)	(257)	0	0
Warranty obligations at 31 December	2,047	5,199	0	0
Other provisions at 1 January	1,836	0	0	0
Foreign exchange adjustments	(129)	0	0	0
Transfers	0	0	0	0
Provisions for the year	7,636	1,836	0	0
Utilised during the year	0	0	0	0
Reversals during the year	0	0	0	0
Transferred to liabilities relating to assets held for sale	(8,222)	0	0	0
Other provisions at 31 December	1,121	1,836	0	0
Obligation relating to restoration of sites at 1 January	13,102	12,622	0	0
Foreign exchange adjustments	40	480	0	0
Provisions for the year	78	0	0	0
Utilised during the year	0	0	0	0
Reversals during the year	(1,543)	0	0	0
Transferred to liabilities relating to assets held for sale	(7,120)	0	0	0
Obligation relating to restoration of sites at 31 December	4,557	13,102	0	0
Total other provisions	7,725	20,137	0	0

The H+H Group's companies provide normal warranties in respect of products supplied to customers. The provision for warranty obligations thus relates to warranties provided in respect of products supplied prior to the balance sheet date. The warranty period varies depending on normal practice in the markets in question. The warranty period is typically between one and five years. Warranty obligations have been determined separately for each company based on normal practice in the market in question and historical warranty costs. At 31 December 2011 warranty obligations relate predominantly to Germany.

Warranty obligations also include a bank guarantee pledged on behalf of a business partner.

The obligation in respect of restoration of sites relates to the company's sites in Finland, Germany, Poland and the UK. The obligation has been calculated on the basis of external assessments of the restoration costs. Restoration is expected to take place after five years.

20 Credit institutions (DKK '000)	Group		Parent company	
	2011	2010	2011	2010
Bank loans	651,058	629,670	278,572	290,165
Lease commitments	678	716	9	220
Amortised borrowing costs	(3,041)	(3,719)	(3,041)	(3,719)
	648,695	626,667	275,540	286,666
Payables to credit institutions are recognised in the balance sheet as follows:				
Non-current	648,307	626,174	275,531	286,643
Current	88	493	9	23
Liabilities relating to assets held for sale	300	0	0	0
	648,695	626,667	275,540	286,666

The H+H Group will be dependent on debt financing in the coming years and maintenance of the committed credit facilities is conditional upon compliance with a number of financial covenants; see note 25.

Finance leases	2011			2010		
	Lease payments	Interest	Carrying amount	Lease payments	Interest	Carrying amount
0-1 year	196	54	142	507	14	493
1-5 years	588	52	536	242	19	223
	784	106	678	749	33	716

The H+H Group leases production equipment under finance leases. The lease term is typically between two and five years, with an option to purchase the asset in question at a favourable price on expiry of the lease term.

All leases follow a fixed repayment profile and none of the leases include provisions about conditional lease payments apart from provisions on indexation based on public indices. The leases are non-cancellable during the agreed lease term, but may be extended on renewed terms. The leases are normally based on a fixed interest rate.

Operating leases	2011	2010	2011	2010
	Lease payments	Lease payments	Lease payments	Lease payments
0-1 year	3,231	2,806	383	0
1-5 years	6,772	3,988	601	0
Over 5 years	532	0	0	0
Total minimum lease payments	10,535	6,794	984	0

The H+H Group leases property, production equipment and vehicles under operating leases in a few cases.

Rental obligations	2011	2010	2011	2010
	Rental payments	Rental payments	Rental payments	Rental payments
0-1 year	2,855	2,799	606	577
1-5 years	7,179	7,984	1,970	2,424
Over 5 years	57,516	58,725	0	151
	67,550	69,508	2,576	3,153

The H+H Group's key rental obligations consist of long-term land leases in Poland and the UK. An amount of DKK 5,605 thousand (2010: DKK 4,318 thousand) has been recognised in the consolidated income statement for 2011 in respect of operating leases and rental obligations.

Notes

21 Contingent liabilities	Group		Parent company	
	2011	2010	2011	2010
(DKK '000)				
Financial guarantee	0	0	372,486	339,505
	0	0	372,486	339,505

The parent company H+H International A/S acts as guarantor for the subsidiaries' drawdowns on the Group's credit facility.

The parent company H+H International A/S has issued letters of support to some of the subsidiaries. Management does not expect these to give rise to losses for the parent company.

The H+H Group is a party to a few pending legal proceedings. In management's opinion, the outcome of these proceedings will not have any impact on the Group's financial position apart from the receivables and payables recognised in the balance sheet.

Taxes and duties

The Group's Danish companies are jointly and severally liable for joint registration of VAT.

22 Auditors' remuneration	Group		Parent company	
	2011	2010	2011	2010
(DKK '000)				
Total fees for statutory audit:				
KPMG	3,403	3,083	1,165	875
	3,403	3,083	1,165	875
The fee to KPMG can be broken down as follows:				
Statutory audit	1,992	2,187	495	400
Other assurance engagements	28	0	0	0
Tax and VAT assistance	991	134	670	100
Other services	392	762	0	375
	3,403	3,083	1,165	875

23 Discontinuing operations and assets held for sale

As part of its continued focus on core business and a desire to reduce interest-bearing debt, H+H aims to sell some of its non-strategic assets in the coming year.

Various plots of land in Poland, a sand pit in Germany, an office property in Denmark, a plot of land in the UK and unused production equipment were therefore readied for sale during the second quarter of 2011 and classified as assets held for sale. If all the assets are sold at the expected value, the selling price for the assets will be DKK 80-90 million, and the sale is expected to result in an accounting gain before tax of DKK 25-35 million. The transactions are expected to be completed before the end of the first half of 2012 and are not included in the outlook for 2012.

A conditional purchase agreement for the office property in Denmark was signed in the third quarter of 2011. The proceeds from the sale will be around DKK 7.5 million and will be received from the buyer in the first quarter of 2012 in

connection with the handover of the property, which is being sold for more than DKK 1.8 million more than its book value, of which DKK 0.5 million was recognised in 2011.

As part of H+H's continued focus on core business, the Board of Directors decided in the third quarter of 2011 to divest the Finnish subsidiary Jämerä-kivitalot Oy, which designs and sells the construction of aircrete houses for private individuals. As the company has been loss-making for a number of years, the divestment will have a positive effect on H+H's future earnings. The company switched strategy in 2009 in favour of an increased focus on delivering turn-key solutions to customers, but this strategy has not proved sustainable, as the processes required to control the building phases were not fully implemented. The divestment is under way and is expected to be completed by the end of the third quarter of 2012. Jämerä-kivitalot Oy has therefore been reclassified as a discontinuing operation.

Key figures for discontinuing operations and assets held for sale

(DKK '000)	2011	2010
Revenue	129,043	69,041
Expenses	(171,623)	(80,759)
Profit for the year before tax	(42,580)	(11,718)
Tax on profit for the year	(6,057)	4,156
Profit for the year after tax	(48,637)	(7,562)
Profit for the year from discontinuing operations	(48,637)	(7,562)
Cash flow from operating activities	(10,335)	(14,549)
Cash flow from investing activities	(641)	(1,186)
Cash flow from financing activities	(6,428)	5,886
Total cash flow	(17,404)	(9,849)
Intangible assets	16,385	0
Property, plant and equipment	41,798	0
Inventories	0	0
Receivables	30,815	0
Cash and cash equivalents	2,599	0
Assets held for sale, total	91,597	0
Credit institutions	330	0
Trade payables	8,594	0
Other liabilities	56,586	0
Liabilities relating to assets held for sale, total	65,510	0
Earnings per share from discontinuing operations (EPS)	(4.97)	(0.77)
Diluted earnings per share from discontinuing operations (EPS-D)	(4.97)	(0.77)

Notes

24 Related parties

The Group's related parties are the Executive Board, the Board of Directors and senior executives in the H+H Group.

On 31 December 2010, the company's former CEO Hans Gormsen purchased a car from the company at its market value of DKK 275,685.

Apart from contracts of employment and the above sale of an asset, no agreements or transactions have been entered into between the company, the Executive Board, the Board of Directors and senior executives. Remuneration to the Board of Directors, the Executive Board and senior executives is disclosed in note 4.

A member of the Board of Directors – Henrik Lind – is a partner in the law firm Gorrissen Federspiel, which was paid fees totalling DKK 607 thousand in 2011 for legal assistance (2010: DKK 145 thousand).

H+H International A/S has no controlling shareholders. Besides the parties specified above, the parent company's related parties consist of its subsidiaries, cf. note 14.

A management fee totalling DKK 15,000 thousand (2010: DKK 15,000 thousand) was received by the parent company from the remainder of the Group.

Transactions between the parent company and subsidiaries also include deposits, loans and interest; these are shown in the parent company balance sheet and notes 8 and 9.

Trading with related parties is at arm's length.

The H+H Group's risk management policy

As a result of its operating, investing and financing activities, the H+H Group is exposed to various financial risks, including market risks (currency, interest rate and commodity risks), credit risks and liquidity risks. It is the H+H Group's policy not to speculate actively in financial risks.

The H+H Group's financial risk management is thus aimed exclusively at managing the financial risks that are a direct consequence of the H+H Group's operating, investing and financing activities. This note relates exclusively to financial risks directly associated with the H+H Group's financial instruments. There have been no material changes in the H+H Group's risk exposure or risk management compared with last year.

MARKET RISKS**Currency risks**

The H+H Group's companies are exposed to currency risks. Financial instruments are primarily entered into in the individual consolidated entities' functional currencies as a result of their purchase and sales transactions. However, the H+H Group has a translation risk, and as a result of this the H+H Group's profit/loss is exposed to fluctuations in the functional currencies.

The H+H Group does not engage in currency speculation. The individual consolidated entities do not enter into financial instruments denominated in foreign currencies unless commercially warranted, and expected transactions and financial instruments in foreign currencies that exceed a limited level and time horizon require hedging. Derivatives and other financial instruments are used only to a limited extent to hedge currency risks. The H+H Group did not use derivatives or other financial instruments to hedge currency risks in 2010, and in 2011 a minor position in EUR was hedged for SEK. This hedging took the form of a forward exchange transaction for purchase of EUR with payment in SEK. At 31 December 2011 the contract had a fair value of DKK (81) thousand, which has been recognised under financial expenses and other payables.

The individual subsidiaries do not have any material exposure to currencies other than the functional currency. The table on the following page shows the Group's monetary items by currency.

Capital management

The H+H Group regularly evaluates the capital structure on the basis of expected cash flows with a view to ensuring an appropriate balance between adequate future financial flexibility and a reasonable return to shareholders.

In 2011 H+H refinanced debt denominated in CZK and PLN in GBP to provide a more expedient currency exposure and interest savings.

The H+H Group will continue to operate with significant loan financing. At year-end 2011 H+H had net interest-bearing debt of DKK 628.5 million, an increase of DKK 14.9 million compared with year-end 2010.

Retention of the committed credit facilities requires compliance with a number of financial key figures; see page 84.

The effective interest rate for H+H in 2011 was in the region of 5.2% (2010: 5.6%).

The effective interest rate for 2012 is expected to be in line with 2011.

At year-end 2011 H+H International A/S had a solvency ratio of 35.0%, compared with 43.9% at year-end 2010.

Notes

25 Financial instruments and financial risks – continued

Monetary items in foreign currency

(DKK '000)								2011	
	EUR	GBP	PLN	DKK	RUB	Others	Total		
Trade receivables	5,335	48,689	11,704	10,089	3,895	8,109	87,821		
Cash and cash equivalents	5,098	100	12,580	166	297	1,614	19,855		
Trade payables	(41,519)	(42,509)	(24,217)	(9,729)	(4,072)	(8,821)	(130,867)		
Credit institutions	(21,918)	(279,139)	0	(290,165)	(19)	(57,154)	(648,395)		
Gross exposure	(53,004)	(272,859)	67	(289,639)	101	(56,252)	(671,586)		
Hedged via derivative financial instruments	0	0	0	0	0	0	0		
Net exposure	(53,004)	(272,859)	67	(289,639)	101	(56,252)	(671,586)		

Monetary items in foreign currency

(DKK '000)								2010	
	EUR	GBP	PLN	DKK	RUB	Others	Total		
Trade receivables	11,513	31,343	9,733	11,915	4,244	9,527	78,275		
Cash and cash equivalents	2,625	36	4,776	49	1,097	4,479	13,062		
Trade payables	(27,784)	(19,988)	(10,993)	(5,748)	(1,098)	(6,582)	(72,193)		
Credit institutions	(14,218)	(12,339)	(189,028)	(291,492)	(98)	(119,492)	(626,667)		
Gross exposure	(27,864)	(948)	(185,512)	(285,276)	4,145	(112,068)	(607,523)		
Hedged via derivative financial instruments	0	0	0	0	0	0	0		
Net exposure	(27,864)	(948)	(185,512)	(282,276)	4,145	(112,068)	(607,523)		

Parent company's monetary items and sensitivity

(DKK '000)									2011		2010	
	Position		Sensitivity		Position		Sensitivity					
	Cash and receivables	Potential volatility of exchange rate	Hypothetical impact on profit before tax for the year*	Hypothetical impact on equity	Cash and receivables	Potential volatility of exchange rate	Hypothetical impact on profit before tax for the year*	Hypothetical impact on equity				
EUR/DKK	322,166	1%	3,322	2,491	540,543	1%	5,405	4,054				
GBP/DKK	(24,510)	5%	(1,226)	(919)	(29,113)	5%	(1,456)	(1,092)				
PLN/DKK	41,630	5%	2,082	1,561	86,067	5%	4,303	3,228				
			4,178	3,133			8,252	6,190				

* The hypothetical impact on profit/loss and equity is significant to the parent company's financial statements but not necessarily to the consolidated financial statements.

The parent company has significant monetary items in currencies other than the functional currency in the form of loans to subsidiaries. The table above shows the parent company's key monetary positions broken down by currency and derived sensitivity.

25 Financial instruments and financial risks – continued

Sensitivity of profit and equity to market fluctuations

(DKK '000)	2011		2010	
	Profit	Equity	Profit	Equity
5% increase in GBP/DKK	768	15,352	749	7,943
5% increase in PLN/DKK	(2,092)	13,087	(2,038)	4,706
5% increase in RUB/DKK	(1,025)	(2,962)	(4,757)	(1,689)
	(2,349)	25,477	(6,046)	10,960

The table above shows the sensitivity of profit/loss and equity to market fluctuations. A decline in the GBP/DKK, RUB/DKK and PLN/DKK exchange rates would result in a corresponding increase in profit/loss after tax and equity. The sensitivity analysis has been calculated at the balance sheet date on the basis of the exposure to the stated currencies at the balance sheet date. The calculations are based solely on the stated change in the exchange rate and do not take into account any knock-on effects on interest rates, other exchange rates etc.

Commodity price risks

The principal raw materials used in the production of air-concrete are cement, lime, water and sand or pulverised fuel ash. Costs for cement account for roughly one-third of total raw materials consumed, excluding energy consumption. Energy costs also account for a substantial proportion of total variable costs. The pricing of most of the raw materials is hedged through standard fixed-price contracts with suppliers, typically with a term of less than one year, under which committed minimum quantities can be purchased at fixed prices.

Interest rate risks

As a result of its investing and financing activities, the H+H Group is exposed to interest rate fluctuations both in Denmark and abroad. The main interest rate exposure is related to fluctuations in CIBOR, LIBOR, EURIBOR and WIBOR.

It is the H+H Group's policy to hedge interest rate risks on the H+H Group's loans if it is assessed that the interest payments can be hedged at a satisfactory level. Hedging is normally effected using interest rate swaps, where floating-rate loans are swapped to fixed-rate loans.

The table below illustrates the H+H Group's interest rate exposure on financial instruments at the balance sheet date.

At 31 December 2011 the Group is not involved in any interest rate swaps.

All other things being equal, based on the H+H Group's average net interest-bearing debt (expressed by quarter), an increase of 1 percentage point per year in the interest rate level in relation to the average interest rate level in 2011 would reduce profit/loss before tax by DKK 6.7 million (2010: DKK 6.1 million).

Notes

25 Financial instruments and financial risks – continued

Interest rate exposure

(DKK '000)	2011				2010			
	Net interest-bearing debt	Interest hedged	Net position	Weighted time to maturity of hedging	Net interest-bearing debt	Interest hedged	Net position	Weighted time to maturity of hedging
DKK	289,999	0	289,999	0	291,443	0	291,443	0
EUR	16,820	0	16,820	0	11,594	0	11,594	0
PLN	(12,580)	0	(12,580)	0	184,252	0	184,252	0
CZK	53,570	0	53,570	0	116,595	0	116,595	0
RUB	(278)	0	(278)	0	(999)	0	(999)	0
GBP	279,040	0	279,040	0	12,303	0	12,303	0
Others	1,969	0	1,969	0	(1,583)	0	(1,583)	0
Total	628,540	0	628,540	0	613,605	0	613,605	0

Liquidity risks

The H+H Group's liquidity risk is defined as the risk that the H+H Group will not, in a worst-case scenario, be able to meet its financial obligations due to insufficient liquidity. It is the H+H Group's policy for capital procurement and placing of surplus funds to be managed centrally by the parent company.

Loan agreements

As a consequence of H+H's stabilising debt levels and the expected positive cash flow in the years ahead, in February 2012 the company decided to cut its borrowing costs by reducing the committed loan agreement with Danske Bank A/S by DKK 50 million to around DKK 800 million. The company also has an uncommitted credit facility of DKK 50 million.

Danske Bank A/S has extended the committed credit facility until 15 February 2015. The associated financial covenants have been adjusted at the same time. The loan agreements contain a number of financial conditions ('covenants'), the effects of which are calculated with effect from the 2012 financial year and then quarterly until the expiry of the agreements on 15 February 2015; see the table below.

	First measurement date
Total net interest-bearing debt to EBITDA	31 Mar. 2012
Equity to total assets	31 Dec. 2012
Debt service cover	31 Dec. 2012
EBITDA interest cover	31 Dec. 2012
Maximum capital expenditure	31 Dec. 2010

There is no obligation to make ordinary repayments prior to the expiry of the loan agreements on 15 February 2015. The company and those of its subsidiaries that are participating in the loan agreements, or that may be considered a material subsidiary, provide cross-guarantees for each other's obligations under the loan agreements.

The loan agreements may be cancelled without notice by the lender if the company's shares are delisted from NASDAQ OMX Copenhagen. The loan agreements may also be terminated by Danske Bank A/S without notice if investors other than Scandinavian institutional investors, individually or through coordinated collaboration, gain control of more than one-third of the shares or more than one-third of the total number of voting rights carried by the shares in H+H International A/S.

The loan agreements prevent the Board of Directors, without the prior permission of the lender, from recommending annual dividend distributions to shareholders of an amount that exceeds 50% of the company's profit after tax in the preceding financial year. The company is also subject to restrictions on its right of disposal over its assets without the prior permission of the lender, including:

- The sale of key assets
- Delisting the shares from NASDAQ OMX Copenhagen
- Significant acquisitions, mergers, restructuring or similar transactions
- Entering into significant leases

25 Financial instruments and financial risks – continued

The H+H Group's financial liabilities fall due as follows

(DKK '000)		2011			
Non-derivative financial instruments	Carrying amount	0-1 year	1-5 years	Over 5 years	
Credit institutions and banks	648,018	0	648,018	0	
Finance lease commitments	678	142	536	0	
Trade payables	130,867	130,867	0	0	
	779,563	131,009	648,554	0	

		2010			
Non-derivative financial instruments	Carrying amount	0-1 year	1-5 years	Over 5 years	
Credit institutions and banks	625,918	32,885	593,033	0	
Finance lease commitments	749	508	241	0	
Trade payables	72,193	72,193	0	0	
	698,860	105,586	593,274	0	

Credit risks

The H+H Group is exposed to credit risks in the course of its activities. These risks are primarily related to receivables in respect of sales of the H+H Group's products. Other credit risks, which relate to bank deposits and counterparties under financial contracts, are considered to be insignificant.

The maximum credit risk related to financial assets corresponds to the carrying amounts recognised in the balance sheet. The H+H Group does not have any material risks relating to a single customer, business partner or country.

The H+H Group's customers are primarily large well-consolidated builders' merchants. The H+H Group has modest credit exposure to housebuilders and developers in a few markets. In keeping with the H+H Group's credit policy, all major customers are credit rated on a regular basis. Credit limits are determined on the basis of the individual customer's credit rating.

If the credit rating of a customer is considered not to be sufficient, the payment terms will be changed or security or credit insurance will be obtained. The H+H Group regularly monitors its credit exposure to customers as part of its risk management. The customer types in the individual segments are typically very similar, regardless of which segment they come from. The H+H Group has historically suffered relatively small losses as a result of non-payment on the part of customers. These losses have been evenly distributed among the H+H Group's geographical segments. The credit quality of receivables is consequently considered to be identical, regardless of which segment the receivables come from.

The H+H Group's maximum credit risk is equivalent to the carrying amount of the receivables and amounts to DKK 99,505 thousand (2010: DKK 90,455 thousand).

Hedge accounting

The H+H Group uses financial instruments, including derivatives, to only a very limited extent to hedge financial risks.

Hedging of expected future transactions (cash flow hedges)

The fair value of those financial instruments that qualify for designation as hedge accounting under IAS 39 is recognised directly in equity until the hedged items are recognised in the income statement. No such financial instruments were used in 2010 or 2011.

No long-term contracts fixing purchase prices for gas or supplies of other raw materials were entered into in 2010 and 2011.

Other derivatives

The fair value of those financial instruments that do not qualify for hedge accounting under IAS 39 is recognised directly in the income statement and disclosed in notes 8 and 9. A forward exchange contract for purchase of EUR in SEK was entered into in 2011. At 31 December 2011 the contract had a fair value of DKK (81) thousand, which has been recognised under financial expenses and other payables.

Notes

25 Financial instruments and financial risks – continued

Financial instruments that hedge expected transactions but do not qualify for hedge accounting under IAS 39						
(DKK '000)	2011			2010		
	Gain/loss recognised in the income statement	Fair value at 31 December	Time to maturity	Gain/loss recognised in the income statement	Fair value at 31 December	Time to maturity
Forward exchange contract EUR/SEK EUR 650 thousand	(81)	(81)	0-1 year	0	0	0

Classification and fair value of financial instruments

The fair value of unlisted financial instruments is determined as the present value of expected future instalments and interest payments. The current market rate for instruments with similar maturities is used as the discount rate.

It is estimated that the fair value of financial instruments relating to the purchase and sale of products etc. with a short credit period matches the carrying amount. For a description of accounting policies and methods, including recognition criteria and basis of measurement, reference is made to the relevant sections of the accounting policies.

Categories of financial instruments

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables	87,821	87,821	78,275	78,275
Other receivables	16,891	16,891	21,820	21,820
Cash and cash equivalents	19,855	19,855	13,062	13,062
Total receivables	124,567	124,567	113,157	113,157
Financial liabilities (derivatives) measured at fair value via the income statement	(81)	(81)	(127)	(127)
Financial liabilities (derivatives) used as hedging instruments	(81)	(81)	0	0
Finance lease liabilities	678	678	749	749
Loans	648,018	651,059	625,918	629,670
Trade payables and other payables	205,026	205,026	156,200	156,200
Total financial liabilities measured at amortised cost	853,722	856,763	782,867	786,619

Level 2 estimates are used for the fair value of derivatives.

Classification and assumptions for the calculation of fair value

Derivative financial instruments: Forward exchange contracts and interest rate swaps are valued using generally recognised valuation methods based on relevant observable swap rates and exchange rates.

Other financial instruments: Current bank loans at variable interest rates are valued at a rate of 100. The fair value of long-term loans and finance leases is calculated using mod-

els that discount all estimated and fixed cash flows to net present value. The expected cash flows for the individual loan or lease are based on contractual cash flows. Financial instruments relating to sale and purchase of goods etc. with a short credit period are considered to have a fair value equal to the carrying amount.

The methods are unchanged from 2010.

26 Management's holdings of shares in H+H International A/S

The internal rules for trading in H+H International A/S's shares by board members, executives and certain employees only permit trading in the 4-week period following each quarterly announcement.

Shares in H+H International A/S

(DKK '000)	1 Jan. 2011	On entry/exit	Additions	Sold/settled during the year	31 Dec. 2011	Market value*
Board of Directors:						
Anders C Karlsson	4,500	0	0	0	4,500	191
Asbjørn Berge	6,000	0	0	0	6,000	254
Stewart A Baseley	0	0	10,000	0	10,000	424
Pierre-Yves Jullien	0	0	0	0	0	0
Henrik Lind	0	0	0	0	0	0
Board of Directors, total	10,500	0	10,000	0	20,500	869
Executive Board:						
Michael Troensegaard Andersen	0	0	4,974	0	4,974	211
Niels Eldrup Meidahl	1,000	0	1,532	0	2,532	107
Hans Gormsen	16,200	(16,200)	0	0	0	0
Executive Board, total	17,200	(16,200)	6,506	0	7,506	318
Other executives	270	0	2,462	0	2,732	116
Total	21,970	(16,200)	18,968	0	30,738	1,303

* Calculation of the market value is based on the quoted share price of DKK 42.4 at the end of the year.

27 Major shareholders and shareholder groups

(DKK '000)	Parent company			
	Nominal value	% of total	Votes	% of total
Share capital at 1 January 2011:				
Shares of DKK 50	490,500	100.0	98,100	100.0
Total	490,500		98,100	

All shares carry the same rights. Each share carries 10 votes at general meetings.

Major shareholders

	Nominal value	% of total	Votes	% of total
The following shareholders hold more than 5% of the share capital or at least 5% of the voting rights in H+H International A/S at 1 January 2012:				
Danish Labour Market Supplementary Pension Fund (ATP)	55,310	11.28	11,062	11.28
LD Equity 1 K/S	28,624	5.84	5,724	5.84

Groups of shareholders at 1 January 2012

	Nominal value	% of total	Votes	% of total
Board of Directors and Executive Board	1,400	0.29	280	0.29
ATP and LD Equity 1 K/S	83,934	17.11	16,786	17.10
Foreign investors	62,975	12.84	12,595	12.84
H+H International A/S	1,024	0.21	204	0.21
Other registered shareholders	218,541	44.56	43,708	44.56
Unregistered shareholders	122,626	24.99	24,527	25.00
Total	490,500	100.00	98,100	100.00

Notes

28 Events after the balance sheet date

No events have occurred after the balance sheet date that will have a material effect on the parent company's or the H+H Group's financial position.



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