Company announcement No. 366, 2018
Interim financial report H1 2018

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"Our volume-driven organic growth shows strong market demand in our footprint. Especially Poland has delivered exceptionally well both on volume and prices", says CEO Michael T. Andersen. "Integration of the acquired businesses are running to schedule and the factory upgrade in Borough Green was commissioned as planned, this in combination with a continuous strong market demand for the second half of the year gives room for an upgrade of our guidance."

Highlights for the period 1 January to 30 June 2018

DKK million	Q2 2018	Q2 2017	H1 2018	H1 2017
Revenue	709	445	1,143	822
Organic growth	16%	0%	11%	3%
EBITDA before special items	117	74	157	111
EBIT margin before special items *	10%	12%	7%	9%
Special items	7	9	23	14
Financial gearing	2.9	2.3	2.9	2.3
Free cash flow excluding acquisitions and divestments	125	41	25	(53)

** Margins are impacted by the planned standstill of the Borough Green factory and accelerated depreciations in relation to orderbooks and trademarks from the acquisitions of HDKS and Grupa Silikaty.*

Other highlights

- A rights issue for the existing shareholders was completed in the second quarter. The company received a gross proceed of DKK 525 million from the offering, in line with expectations. Net proceeds from the offering was DKK 504 million.
- Closing of the acquisition of Grupa Ożarów's calcium silicate unit business Grupa Silikaty in Poland 4 April 2018 (i.e. three months included in the consolidated financials for H1 2018).
- Integration of the acquired businesses are running to schedule.
- The upgrade of the Borough Green factory was commissioned as planned.

For further information please contact:
Michael T Andersen, CEO, or Bjarne Pedersen, Vice President, Business Development & IR, on telephone +45 35 27 02 00.

Outlook for 2018
H+H updates its outlook for 2018:

- Growth before acquisitions and measured in local currencies is expected to be around 11% (previously around 5%).

- EBITDA before special items is expected to be DKK 370-410 million (previously DKK 350-390 million).

- Approximately DKK 25-30 million costs are expected to be incurred as a result of the Borough Green factory upgrade and resulting need to import products from sister companies. The increased transportation costs will be expensed at the point of sale and treated as a special item (unchanged).

- Approximately DKK 40 million for transaction and integration costs for HDKS and Grupa Silikaty will be expensed as special items (unchanged).

- Investments excluding the acquisition of enterprises and related land, property and related deferred payments are expected to be in the region of DKK 150 million of which approximately DKK 35 million relates to an investment required at one of the HDKS plants damaged by fire during the acquisition process. A similar amount was covered by a reduction in the purchase price (unchanged).

Investor teleconference
H+H International A/S will host an investor teleconference on 16 August 2018 at 11.30 a.m. CEST. To attend the conference call dial +45 35 27 02 29 and meeting ID is 28238.

H+H's core activity is the manufacture and sale of wall building materials, with a revenue in 2017 of DKK 1.6 billion before acquisition of the calcium silicate product line. The main product lines are aircrete blocks and since 2018 calcium silicate units used for the residential new building segment. H+H has 28 factories in Northern and Central Europe and Northwest Russia with a total output of more than 4 million cubic metres of products annually and has a leading position in most of its markets. H+H has around 1,600 employees and is listed on Nasdaq Copenhagen.

Key figures – H+H Group

Amounts in DKK million	Q2 2018	Q2 2017	H1 2018	H1 2017	Full-year 2017
Income statement					
Revenue	709	445	1,143	822	1,622
Gross profit	181	125	277	210	434
EBITDA before special items	117	74	157	111	242
EBITDA	110	65	134	96	212
EBIT before special items	69	55	82	73	165
EBIT	62	46	59	58	134
Net financing costs	(10)	(4)	(17)	(9)	(18)
Profit/loss before tax from continuing operations	52	42	42	49	116
Profit/loss from continuing operations	57	37	43	39	95
Profit/loss from discontinued operations	0	0	0	(1)	(5)
Profit/loss for the period	57	37	43	38	90
Balance sheet					
Non-current assets	1,915	887	1,915	887	929
Current assets	702	429	702	429	397
Share capital	180	108	180	108	108
Equity	926	343	926	343	377
Non-current liabilities	808	642	808	642	636
Current liabilities	883	331	883	331	313
Total equity and liabilities	2,617	1,316	2,617	1,316	1,326
Investments in property, plant and equipment	31	7	165	30	110
Investments in enterprises	25	35	744	35	0
Net Interest-bearing debt (NIBD)	723	477	723	477	458
Cash flow					
Cash flow from operating activities	156	48	85	(23)	83
Cash flow from investing activities	(56)	(42)	(908)	(65)	(144)
Cash flow from financing activities	(58)	(6)	860	95	66
Free cash flow	100	6	(823)	(88)	(61)
Financial ratios					
Gross margin	26%	28%	24%	26%	27%
EBIT margin before special items	10%	12%	7%	9%	10%
EBIT margin	9%	10%	5%	7%	8%
Return on invested capital (ROIC) *	11%	15%	11%	15%	16%
Return on equity **	23%	35%	23%	35%	27%
Solvency ratio	35%	26%	35%	26%	28%
Net interest-bearing debt/EBITDA	2.9	2.3	2.9	2.3	2.2
Share data					
Share price, end of period (DKK)	101.0	108.5	101.0	108.5	145.0
Book value per share, end of period (DKK)	11.2	32.0	11.2	32.0	35.1
Earnings per share	5.3	3.4	4.0	2.9	8.3
Diluted earnings per share	5.3	3.4	4.0	2.9	8.3

* Due to the acquisition of HDKS and Grupa Silikaty the method for calculating "Return on invested capital (ROIC)" has changed to better reflect a true and fair view. ROIC for H1 2018 has been calculated as "Operating profit (EBIT)" held against the average invested capital, both measured on a twelve months basis.

** Due to the capital increase the method for calculating "Return on equity" has changed to better reflect a true and fair view. Return on equity for H1 2018 has been calculated as "Profit/loss for the period" divided by average equity, both measured on a twelve months basis.

MANAGEMENT'S REVIEW

Revenue
Revenue in local currencies, excluding the acquired businesses (organic growth), increased by 16% in the second quarter. Revenue, including the acquired businesses, increased by 59% to DKK 709 million in the second quarter.

The organic growth stems from a very strong performance in the Eastern European segment driven by Poland with higher prices and more volume. The sales performance in the Western European segment is overall in line with expectations with higher prices in all markets.

Gross margin
The gross margin in the second quarter was 26%, against 28% in 2017. Adjusted for the additional transport costs incurred in the UK due the sale of imported products from sister companies and the impact of the stand-still of the Borough Green factory, the gross margin would have been 28% vs. 29% in 2017.

Special items
Special items for the second quarter was DKK 7 million (2017: DKK 9 million), of which DKK 9 million is related to import of products sold to the UK supplied by sister companies, DKK 10 million related to transaction and integration costs of HDKS and Grupa Silikaty offset by recognition of badwill of DKK 12 million related to the acquisition of Grupa Silikaty.

The costs related to the import of products are expensed as "productions costs" in the Income Statement.

EBITDA
EBITDA before special items for the second quarter was DKK 117 million and DKK 110 million after special items (2017: EBITDA before special items was DKK 74 million and DKK 65 million after special items).

The increase in EBITDA before special items comes from the Eastern European segment and the acquired business.

Operating profit (EBIT)
Operating profit before special items for the second quarter was DKK 69 million and DKK 62 million after special items (2017: EBIT before special items was DKK 55 million and DKK 46 million after special items).

EBIT margin before special items for the second quarter was 10% (2017: 12%) and 8% (2017: 10%) after special items.

EBIT before special items has been negatively affected by the planned stand still of the factory in Borough Green and amortisation of order book and trademarks identified in the purchase price allocation of HDKS and Grupa Silikaty. Adjusted for these items, EBIT margin would have been in the same level as last year. The impact of the items will predominately affect first-half of 2018.

Profit before tax
Second-quarter profit before tax was DKK 52 million (2017: DKK 42 million), a change of DKK 10 million.

Profit before tax from continuing operations

Amounts in DKK million	Q2 2018	Q2 2017	H1 2018	H1 2017
Western Europe	33	49	30	69
Eastern Europe	36	4	45	1
Eliminations and unallocated items	(17)	(11)	(33)	(21)
Total	52	42	42	49

Eliminations and unallocated items
Unallocated items for the second quarter was DKK (17) million, up DKK 6 million compared to 2017 due to acquisition costs.

Purchase price allocation
The preliminary purchase price allocations for HDKS and Grupa Silikaty is reflected in the interim financial report for H1 2018. The main impact on the income statement is that the order book from the date of purchase is being amortised over a period of up to 6 months where a total amortisation expense of DKK 15 million will be recognised.

In addition, the identified trademarks, which will be amortised over a period of up to 12 months, will affect the amortisation expense for 2018 by DKK 7 million.

For the above, an amortisation expense of DKK 13 million in total was recognised in the second quarter.

For further details on the purchase price allocation please refer to note 12 "Business Combinations".

Comprehensive income
The total comprehensive income for the second quarter amounted to DKK 50 million which comprises of profit for the period of DKK 57 million, foreign

exchange adjustments of DKK (16) million and actuarial gains less deferred tax of DKK 9 million.

Please refer to note 7 ”Pension obligations” for further comments on the adjustment of the UK pension obligation.

Taxation
Tax for the second quarter was an income of DKK 5 million (2017: DKK (5) million). Tax is affected by capitalisation of carry-forward losses related to Germany with an associated taxable value of DKK 15 million.

Cash flow
Cash flow from operating activities in the second quarter was DKK 156 million (2017: DKK 48 million), a change of DKK 108 million.

The positive cash flow from operations is mainly due to acquired businesses and normal seasonal decreases in working capital, in particular from stock reduction.

Cash flow from investing activities in the second quarter was DKK (56) million (2017: DKK (42) million). The investing activities comprise of an initial payment of DKK (25) million for the purchase of Grupa Silikaty as well as investments in existing property plant and equipment of DKK (31) million (2017: DKK (7) million).

Investments

	Q2	Q2	H1	H1
Amounts in DKK million	2018	2017	2018	2017
Western Europe	29	4	58	23
Eastern Europe	2	3	3	7
Acquisition of enterprises	25	35	744	35
Acquisition of land and property related to the acquired enterprises	0	0	104	0
Total	56	42	909	65

Second-quarter free cash flow was DKK 100 million (2017: DKK 6 million).

Cash flow from financing activities in the second quarter was DKK (58) million (2017: DKK (6) million). The financing activity is affected by net proceeds from the rights issue of DKK 504 million offset by repayments of short and long-term debt DKK (564) million.

Financing
Net interest-bearing debt totalled DKK 723 million at 30 June 2018, up DKK 265 million since the beginning of the year and up DKK 246 million since 30 June 2017.

Second-quarter net financials totalled DKK (10) million (2017: DKK (4) million). Besides interest expenses and foreign exchange adjustments, the figure includes amortisation of borrowing costs, payments for the committed credit facility, realised and unrealised gain/losses on foreign exchange hedges and expenses for the pension scheme in the UK.

Equity
H+H’s equity increased by DKK 549 million in the first half predominantly from the net proceeds from a rights issue totalling DKK 504 million. The gross proceeds was DKK 525 million. Further, profit/loss for the period contributed DKK 43 million, value adjustment of UK pension DKK 21 million less deferred tax, foreign exchange adjustments of investments in subsidiaries DKK (20) million, and other adjustments of DKK 1 million.

Equity

	H1	H1
Amounts in DKK million	2018	2017
1 January	377	278
Profit/loss for the period	43	38
Actuarial gains/losses on pension plans	21	21
Foreign exchange adjustments	(20)	6
Capital increase	504	0
Other adjustments	1	0
30 June	926	343

SEGMENTS

Revenue

	Q2	Q2	H1	H1
Amounts in DKK million	2018	2017	2018	2017
Western Europe	517	336	824	624
Eastern Europe	192	109	319	198
Total	709	445	1.143	822

EBITDA before special items

	Q2	Q2	H1	H1
Amounts in DKK million	2018	2017	2018	2017
Western Europe	89	69	124	109
Eastern Europe	43	16	65	22
Eliminations and unallocated items	(15)	(11)	(32)	(20)
Total	117	74	157	111

Western Europe
Second-quarter revenue in Western Europe, excluding the acquired companies, increased by 11% in local currencies (organic growth). Revenue including the acquired business increased by DKK 181 million to DKK 517 million, an increase of 54%.

Second-quarter organic growth was mainly driven by higher sales volume, prices are also higher than last year.

In the UK the market situation is stable, and the second quarter provided some catch-up of the volume lost in the first quarter from the weather impact.

Performance in the acquired business are running to schedule with volumes on par with last year and prices higher than last year.

Second-quarter EBITDA before special items was DKK 89 million (2017: DKK 69 million), an increase of DKK 20 million. The increase in EBITDA comes from the acquired business, offset in part by lack of production recovery at our Borough Green factory due to the factory upgrade and general inflation increases.

Second-quarter EBITDA was adversely impacted by special items of DKK 11 million (2017: 8 million).

Second-quarter profit before tax was DKK 33 million (2017: DKK 49 million), a change of DKK (16) million.

Eastern Europe
Second-quarter revenue in Eastern Europe, excluding the acquired companies, increased by 31% in local currencies (organic growth). Revenue including the acquired business increased by DKK 83 million to DKK 192 million, an increase of 76%.

Second-quarter organic growth was driven by Poland where both sales volumes and prices are favourable compared to the same period last year.

Second-quarter EBITDA before special item was DKK 43 million (2017: DKK 16 million), a change of DKK 27 million.

The increase has derived from Poland where the positive revenue development combined with higher production volumes and good unit cost of production have led to a significant increase in profitability in addition to the synergistic impact from the acquired business.

Second-quarter EBITDA was adversely impacted by special items of DKK 5 million (2017: 2 million). Second-quarter profit before tax was DKK 36 million, (2017: DKK 4 million), a change of DKK 32 million.

Most material risks and uncertainties
For most material risks and uncertainties, please refer to note 5 “Significant accounting estimates and judgements” and note 10 “Financial risks and derivative financial instruments”.

H+H Polska Sp. z o.o. have on the 4 April 2018 closed the acquisition of 99.19% of the shares in Grupa Silikaty Sp. z o.o. for a total consideration of PLN 36 million (DKK 64 million).

Please also refer to note 12 “Business combinations” for further comments.

OUTLOOK FOR 2018

- H+H updates its outlook for 2018:
    - Growth before local acquisitions and measured in local currencies is expected to be around 11% (previously around 5%).
    - EBITDA before special items is expected to be DKK 370-410 million (previously DKK 350-390 million).
    - Approximately DKK 25-30 million costs are expected to be incurred as a result of the Borough Green factory upgrade and resulting need to import products from sister companies. The increased transportation costs will be expensed at the point of sale and treated as a special item (unchanged).
    - Approximately DKK 40 million for transaction and integration costs for HDKS and Grupa Silikaty will be expensed as special items (unchanged).
    - Investments excluding the acquisition of enterprises and related land, property and related deferred payments are expected to be in the region of DKK 150 million of which approximately DKK 35 million relates to an investment required at one of the HDKS plants damaged by fire during the acquisition process. A similar amount was covered by a reduction in the purchase price (unchanged).

The expectations for H+H's financial performance in 2018 are based partly on the following *specific* assumptions:

- Economic growth in our geographical footprint.
- The commercial and operational excellence programmes continue to deliver improvements.
- Exchange rates, primarily for GBP, EUR, CHF, PLN and RUB, hold at their mid-August 2018 levels.
- Energy and raw material prices rise only in line with current expectations based on inflation and current agreements from their mid-August 2018 levels.
- The geopolitical situation does not result in changed market conditions, and that in particular Brexit has no material impact.
- Integration of the calcium silicate businesses according to schedule.

ABOUT THE OUTLOOK FOR 2018

The expectations for H+H's financial performance are also based on a number of 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 geographical markets
- Developments in the market for building materials
- Distribution factors
- Weather conditions
- Geopolitical developments

H+H International A/S will update and adjust the expectations presented where so required by legislation and relevant rules, including the Market Abuse Regulation and Rules for Issuers on Nasdaq Copenhagen.

FINANCIAL CALENDAR FOR 2018

Interim financial report Q1-Q3 2018 ....15 Nov. 2018

DISCLAIMER

This interim financial report contains forward-looking statements.
Such statements are subject to risks and uncertainties, as various factors, many of which are beyond the control of H+H International A/S, may cause actual developments and results to differ materially from the expectations expressed in this report.

STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS

The Executive Board and the Board of Directors have today discussed and approved the interim financial report for H+H International A/S for the first-half of 2018.

The interim financial report, which has not been audited or reviewed by the company's auditors, has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and Danish disclosure requirements for the interim financial reports of listed companies.

It is our opinion that the interim financial report gives a true and fair view of H+H's assets, liabilities and financial position at 30 June 2018 and of the results of H+H's operations and its cash flows for the period 1 January to 30 June 2018.

Furthermore, it is our opinion that management's review provides a fair account of developments in H+H's operations and financial conditions, the results for the period and H+H's overall financial position, as well as a description of the most significant risks and uncertainties that H+H faces.

Copenhagen, 16 August 2018

EXECUTIVE BOARD

Michael Troensegaard Andersen
CEO

Ian Lea Perkins
CFO

BOARD OF DIRECTORS

Kent Arentoft
Chairman

Stewart Antony Baseley

Volker Christmann

Pierre-Yves Jullien

Miguel Kohlmann

Henriette Schütze

CONDENSED INCOME STATEMENT

	Group				
Amounts in DKK million	Q2 2018	Q2 2017	H1 2018	H1 2017	Full-year 2017
Revenue	709	445	1,143	822	1,622
Production costs	(528)	(320)	(866)	(612)	(1,188)
Gross profit	**181**	**125**	**277**	**210**	**434**
Sales and distribution costs	(36)	(26)	(67)	(52)	(102)
Administrative costs	(37)	(30)	(68)	(58)	(109)
Other operating income and expenses	2	(4)	(8)	(4)	(11)
Profit/loss before depreciation, amortisation and financial items (EBITDA)	**110**	**65**	**134**	**96**	**212**
Depreciation and amortization	(48)	(19)	(75)	(38)	(78)
Impairment losses	0	0	0	0	0
Operating profit/loss (EBIT)	**62**	**46**	**59**	**58**	**134**
Financial income	0	1	0	1	2
Financial expenses	(10)	(5)	(17)	(10)	(20)
Profit/loss before tax from continuing operations	**52**	**42**	**42**	**49**	**116**
Tax on profit/loss from continuing operations	5	(5)	1	(10)	(21)
Profit/loss from continuing operations	**57**	**37**	**43**	**39**	**95**
Loss from discontinued operations	0	0	0	(1)	(5)
Profit/loss for the period	**57**	**37**	**43**	**38**	**90**
Earnings per share (EPS-Basic)	5	3	4	3	8
Diluted earnings per share (EPS-D)	5	3	4	3	8

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Group				
Amounts in DKK million	Q2 2018	Q2 2017	H1 2018	H1 2017	Full-year 2017
Profit/loss for the period	57	37	43	38	90
Items that may be reclassified subsequently to profit or loss:					
Foreign exchange adjustments, foreign companies	(15)	(13)	(20)	8	1
Tax on foreign exchange adjustments, foreign companies	(1)	0	0	(2)	0
	(16)	**(13)**	**(20)**	**6**	**1**
Items that will not be reclassified subsequently to profit or loss:					
Actuarial gains and losses	12	(3)	27	27	11
Tax on actuarial gains and losses	(3)	0	(6)	(6)	(3)
	9	**(3)**	**21**	**21**	**8**
Other comprehensive income after tax	**(7)**	**(16)**	**1**	**27**	**9**
Total comprehensive income	**50**	**21**	**44**	**65**	**99**

CONDENSED BALANCE SHEET

	Group			
	30 June	31 Dec.	30 June	31 Dec.
Amounts in DKK million	2018	2017	2017	2016
ASSETS				
Non-current assets				
Goodwill	185	52	52	51
Intangible assets	253	5	5	4
Property, plant and equipment	1,445	844	805	820
Deferred tax assets	31	28	25	27
Financial assets	1	0	0	0
Total non-current assets	**1,915**	**929**	**887**	**902**
Current assets				
Inventories	295	268	216	182
Receivables	306	116	201	97
Cash and cash equivalents	101	13	12	8
Total current assets	**702**	**397**	**429**	**287**
TOTAL ASSETS	**2,617**	**1,326**	**1,316**	**1,189**
EQUITY AND LIABILITIES				
Equity				
Share capital	180	108	108	108
Retained earnings/losses	986	489	457	397
Other reserves	(240)	(220)	(222)	(227)
Total equity	**926**	**377**	**343**	**278**
Liabilities				
Pension obligations	131	150	134	171
Provisions	22	15	19	24
Deferred tax liability	158	0	0	0
Deferred payment, acquisition of subsidiary	23	0	0	0
Interest bearing debt	474	471	489	395
Total non-current liabilities	**808**	**636**	**642**	**590**
Current liabilities				
Interest bearing debt, short-term	350	0	0	0
Trade payables	306	217	231	188
Income tax	13	7	11	9
Deferred payment, acquisition of subsidiary	24	0	0	34
Provisions	10	3	8	10
Other current liabilities	180	86	81	80
Total current liabilities	**883**	**313**	**331**	**321**
Total liabilities	**1,691**	**949**	**973**	**911**
TOTAL EQUITY AND LIABILITIES	**2,617**	**1,326**	**1,316**	**1,189**
Net interest-bearing debt	723	458	477	387

CONDENSED CASH FLOW STATEMENT

Amounts in DKK million	Q2 2018	Q2 2017	H1 2018	H1 2017
Operating profit/loss (EBIT)	62	46	59	58
Badwill recognised in connection to the acquisition of Grupa Silikaty	(12)	0	(12)	0
Financial income received	0	0	0	0
Financial expenses paid	(10)	(4)	(17)	(9)
Depreciation, amortisation and impairment losses	48	19	75	38
Change in working capital	79	(3)	(2)	(93)
Change in provisions	(7)	(4)	(10)	(6)
Income tax paid	(4)	(6)	(8)	(11)
Operating activities	**156**	**48**	**85**	**(23)**
Sale of property, plant and equipment	0	0	1	0
Acquisition of enterprises and related deferred payments	(25)	(35)	(744)	(35)
Acquisition of land and property related to the acquired enterprises	0	0	(104)	0
Acquisition of property, plant and equipment and intangible assets	(31)	(7)	(61)	(30)
Investing activities	**(56)**	**(42)**	**(908)**	**(65)**
Proceeds from / repayment of short and long-term debt	(564)	(6)	355	94
Proceeds from rights issue	504	0	504	0
Other financial activities	2	0	1	1
Financing activities	**(58)**	**(6)**	**860**	**95**
Cash flow from discontinued operations	0	0	0	(3)
Total cash flow	**42**	**0**	**37**	**4**
Cash and cash equivalents, opening	36	12	13	8
Cash related to the acquired enterprises	23	0	51	0
Foreign exchange adjustments of cash and cash equivalents	0	0	0	0
Cash and cash equivalents at 30 June	**101**	**12**	**101**	**12**

CONDENSED STATEMENT OF CHANGES IN EQUITY

Amounts in DKK million	Share capital	Translation reserve	Other reserves	Retained earnings	Proposed dividend	Total
Equity at 1 January 2018	**108**	**(220)**	**0**	**489**	**0**	**377**
Total changes in equity in 2018						
Profit/loss for the period	0	0	0	43	0	43
Other comprehensive income	0	(20)	0	21	0	1
Total comprehensive income	**0**	**(20)**	**0**	**64**	**0**	**44**
Issue of ordinary shares (7,193,346 shares)	72	0	0	432		504
Share-based payment	0	0	0	1	0	1
Total changes in equity in 2018	**72**	**(20)**	**0**	**497**	**0**	**549**
Equity at 30 June 2018	**180**	**(240)**	**0**	**986**	**0**	**926**
Equity at 1 January 2017	**108**	**(227)**	**0**	**397**	**0**	**278**
Total changes in equity 2017						
Profit/loss for the period	0	0	0	38	0	38
Other comprehensive income	0	6	0	21	0	27
Total comprehensive income	**0**	**6**	**0**	**59**	**0**	**65**
Share-based payment	0	0	0	0	0	0
Total changes in equity in 2017	**0**	**6**	**0**	**59**	**0**	**65**
Equity at 30 June 2017	**108**	**(221)**	**0**	**456**	**0**	**343**

NOTES

1. Accounting policies

The interim financial report for the period 1 January to 30 June 2018 has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional Danish disclosure requirements for the interim financial reports of listed companies. The application of IAS 34 means that the disclosures are more limited than in a complete annual report, but that the recognition and measurement principles in International Financial Reporting Standards (IFRS) have been complied with. The interim financial report has not been reviewed by the company's auditors.

H+H has implemented IFRS 9 affecting the accounting policy for write-down of bad and doubtful debts. IFRS 9 requires H+H to record expected credit losses on all its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. H+H has applied the simplified approach and record lifetime expected losses on all trade receivables.

Other than above are accounting policies consistent with those applied in the 2017 annual report, which includes a full description of the accounting policies applied.

2. Adoption of new and revised IFRSs

H+H International A/S has adopted all new or revised and amended International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) issued by IASB and endorsed by the EU effective for the financial year 2018. Based on an analysis carried out by H+H International A/S, the application of IFRS 9 and IFRS 15 has not had a material impact on the interim financial report for H1 2018, and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs.

3. New IFRSs which have been issued but not yet become effective

IASB has issued a number of new or amended standards (IFRSs) and interpretations (IFRIC), which have been endorsed by the EU but not yet come into effect. IFRS 16 Leases is expected to become effective 1 January 2019. H+H International A/S has assessed the impact of these IFRSs that are not yet effective.

IFRS 16 Leases will replace IAS 17 Leases currently in force and is effective for annual periods beginning on or after 1 January 2019. The new standard is expected to have an impact on H+H International A/S as a lessee, as all leases (except for short-term leases and leases of low-value assets) have to be recognized in the balance sheet as a right-of-use asset and lease liability measured at the present value of future lease payments. The right-of-use asset is subsequently depreciated over the lease term in a similar way to other assets such as property, plant and equipment, and interest on the lease liability is calculated in a similar way to finance leases under IAS 17 Leases. Consequently, the change will also impact the presentation of the income statement and key performance indicators EBITDA and EBIT as well as balance sheet related ratios ROIC, NIBD and solvency. Leases for the H+H Group primarily comprise of forklift trucks, cars and rental of premises.

An updated preliminary assessment including the acquired businesses "HDKS" and Grupa Silikaty shows a positive impact of approximately DKK 23 million on EBITDA for the period 1 January - 31 December 2019 and an expected increase of the balance sheet by approximately DKK 108 million as at 1 January 2019. Due to the higher invested capital recognised ROIC and Solvency will be affected negatively by approximately 1 percentage point.

4. Segment information

Amounts in DKK million	Q2 2018						
	Western Europe			Eastern Europe			
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Reportable segments, total
Revenue, external	441	76	517	192	0	192	709
Revenue, internal	37	0	37	8	0	8	45
EBITDA	72	6	78	48	0	48	126
Depreciation and amortization	(38)	0	(38)	(10)	0	(10)	(48)
Impairment losses	0	0	0	0	0	0	0
Operating profit/loss (EBIT)	34	6	40	38	0	38	78
Net financials	(3)	(4)	(7)	(2)	0	(2)	(9)
Profit/loss before tax	31	2	33	36	0	36	69
Non-current assets	1.176	2	1.178	468	0	468	1.646
Investments in non-current assets	29	0	29	2	0	2	31
Assets	1.589	73	1.662	608	0	608	2.270
Equity	914	(51)	863	289	(51)	238	1.101
Liabilities	675	124	799	319	51	370	1.169

Amounts in DKK million	Q2 2017						
	Western Europe			Eastern Europe			
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Reportable segments, total
Revenue, external	267	69	336	109	0	109	445
Revenue, internal	35	0	35	10	0	10	45
EBITDA	54	7	61	14	0	14	75
Depreciation and amortization	(12)	0	(12)	(7)	0	(7)	(19)
Impairment losses	0	0	0	0	0	0	0
Operating profit/loss (EBIT)	43	7	50	7	0	7	57
Net financials	2	(3)	(1)	(3)	0	(3)	(4)
Profit/loss before tax	45	4	49	4	0	4	53
Non-current assets	423	2	425	436	0	436	861
Investments in non-current assets	4	0	4	3	0	3	7
Assets	691	66	757	537	1	538	1.295
Equity	532	(19)	513	188	(55)	133	646
Liabilities	159	85	244	349	56	405	649

Reconciliation of reportable segments' earnings before tax

	Q2	Q2
Amounts in DKK million	2018	2017
Segment profit before tax for reportable segments	69	53
Unallocated group costs, corporate functions	(17)	(11)
Impairment losses, non-reportable segment	0	0
Total	52	42

Amounts in DKK million	H1 2018						
	Western Europe			Eastern Europe			
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Reportable segments, total
Revenue, external	689	135	824	319	0	319	1.143
Revenue, internal	66	0	66	11	0	11	77
EBITDA	88	9	97	69	0	69	166
Depreciation and amortisation	(57)	0	(57)	(18)	0	(18)	(75)
EBIT before impairment	31	9	40	51	0	51	91
Impairment losses	0	0	0	0	0	0	0
Operating profit (loss) (EBIT)	31	9	40	51	0	51	91
Net financials	(3)	(7)	(10)	(5)	(1)	(6)	(16)
Profit (loss) before tax	28	2	30	46	(1)	45	75
Non-current assets	1.176	2	1.178	468	0	468	1.646
Investments in non-current assets	162	0	162	3	0	3	165
Assets	1.589	73	1.662	608	0	608	2.270
Equity	914	(51)	863	289	(51)	238	1.101
Liabilities	675	124	799	319	51	370	1.169

Amounts in DKK million	H1 2017						
	Western Europe			Eastern Europe			
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Reportable segments, total
Revenue, external	495	129	624	198	0	198	822
Revenue, internal	64	0	64	18	0	18	82
EBITDA	84	12	96	21	0	21	117
Depreciation and amortisation	(23)	0	(23)	(15)	0	(15)	(38)
Impairment losses	0	0	0	0	0	0	0
Operating profit (loss) (EBIT)	61	12	73	6	0	6	79
Net financials	3	(7)	(4)	(5)	0	(5)	(9)
Profit (loss) before tax	64	5	69	1	0	1	70
Non-current assets	423	2	425	436	0	436	861
Investments in non-current assets	23	0	23	7	0	7	30
Assets	691	66	757	537	1	538	1.295
Equity	532	(19)	513	188	(55)	133	646
Liabilities	159	85	244	349	56	405	649

Reconciliation of reportable segments' earnings before tax

	H1	H1
Amounts in DKK million	2018	2017
Segment profit (loss) before tax for reportable segments	75	70
Unallocated group costs, corporate functions	(33)	(21)
Impairment losses, non-reportable segment	0	0
Total	42	49

5. Significant accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make a number of estimates and judgements concerning future events that have a material effect on the carrying amounts of assets and liabilities.

In the case of the H+H Group, significant changes in the estimates and assumptions on which values are based may have a material effect on the measurement of assets and liabilities, including impairment testing of goodwill and non-current assets, net defined-benefit obligations and the preliminary purchase price allocation of HDKS.

With reference to note 7 “Pension obligations”, significant accounting estimates and judgements have been made in connection to the adjustment of the net defined-benefit pension obligation in the UK.

With reference to note 12 “Business combinations”, significant accounting estimates and judgement have been made in connection to assessing the preliminary fair value estimates for acquired net assets related to HDKS and Grupa Silikaty.

The estimates and judgements made are based on assumptions that management assess to be sound, but that, by their nature, are uncertain and unpredictable. The assumptions may be incomplete, and unforeseen future events or circumstances may occur.

Further details of H+H’s principal risks and the external factors that may affect H+H are provided in the 2017 annual report.

6. Seasonal and cyclical fluctuations

Seasonal fluctuations
The sales pattern for H+H’s products is seasonal. Sales in the second and third quarters are traditionally significantly higher than during the rest of the year. As a large part of H+H’s cost base is not directly variable with revenue, deviations from projected sales may result in considerable fluctuations in H+H’s earnings.

Furthermore, because H+H’s sales are predominantly based on short-term orders, the Group is unable, or only to a very limited extent, able to align its cost base to actual customer demand. Historically, revenue and earnings generated by H+H’s operations have fluctuated significantly during the financial year, and management expects this to remain the case.

Cyclical fluctuations
Activity levels in the countries and markets in which H+H’s products are sold have a major impact on demand for these products. H+H’s sales go predominantly to new dense low-rise housing, and to a lesser extent high-rise housing, making H+H particularly vulnerable to fluctuations in the level of activity in these building segments. H+H’s products are mainly sold in geographical markets that are situated relatively close to its factories – the specific geographical market for each factory depends on local transport prices, the state of the infrastructure and the competitive situation, including price levels.

7. Pension obligations

H+H has defined-benefit pension plans in the UK, Switzerland and Germany. The UK and Swiss pension plans are managed by a pension fund to which payments are made, whereas the German pension plan are unfunded. H+H’s pension obligations relate predominantly to the plans in the UK.

For interim periods, the H+H’s defined-benefit pension obligations are based on valuations from external actuaries carried out at the end of prior financial year taking into account any subsequent movements in the obligation due to pension costs, contributions etc. up until the reporting date. Actuarial calculations are updated or extrapolated quarterly.

Compared to December 2017, a value adjustment has been made relating to the UK pension plan, affecting total comprehensive income for the first-half of 2018. An updated extrapolation of the actuarial calculations carried out in connection to the interim period shows a decrease in underfunding of DKK 27 million net (the present value of the obligations exceeds the fair value of the plan assets), which less deferred tax amounts to DKK 21 million.

The total pension obligation as at 30 June 2018 amounts to DKK 131 million, compared to DKK 150 million as at 31 December 2017. The development in the pension obligations from 31 December 2017 till 30 June 2018 is due to payments, interest, value adjustment, currency adjustment and pension obligations from the HDKS acquisition.

8. Financial resources and cash flow

Net interest-bearing debt totalled DKK 723 million at 30 June 2018, up DKK 265 million since the beginning of the year and up DKK 246 million on 30 June 2017. The development is primary due to the acquisitions of HDKS and Grupa Silikaty which has been partly funded by the rights issue.

A cash consideration for the acquisition of HDKS of DKK 825 million including a preliminary closing payment was made on 28th February 2018. The acquisition was financed utilizing the term loan facility of DKK 850 million. On the 22 June 2018, the Company completed the rights issue with Pre-emptive Rights for the existing shareholders, resulting in receiving a net proceed of DKK 504 million. Following the rights issue, the Company repaid DKK 500 million reducing the term loan facility to DKK 350 million at 30 June 2018.

The remaining part of the term loan facility DKK 350 million expires 31 January 2019. The H+H Group will continue to be dependent on debt financing.

The company's financing is subject to certain conditions e.g. the following financial covenants which has been fulfilled in the second quarter of 2018 and which are required to be fulfilled for the remaining two quarters of 2018:

- Leverage ratio (net debt to EBITDA)
- Solvency ratio (equity to total assets)
- Interest cover ratio (EBITDA to financial net payables)

The company and those of its subsidiaries that are participating in the loan agreements provide cross-guarantees for one another's obligations under the loan agreement.

Refer to note 25 in the annual report for 2017 where the conditions are listed in full. Conditions are unchanged compared to the annual report for 2017.

9. Share-based payment

Matching share programmes for the Executive Board and other key employees were implemented in 2012-2017, where the schemes 2016-2017 are active. The schemes are presented in the consolidated financial statements and annual report for 2017. An amount of DKK 1.1 million was recognised under staff costs in the second quarter of 2018 in respect of the two for 2016 and 2017, against DKK 0.4 million in the same period in 2017.

To try to hedge H+H International A/S's possible future obligations to grant matching shares under the matching share programme, the Board of Directors exercises the authorisation granted by the general meeting to the company to acquire treasury shares on a regular basis.

10. Tax

Tax for the first half shows an income of DKK 1 million. The tax comprises of current tax expense for the period of DKK (15) million offset by adjustment of deferred tax DKK 16 million. The adjustment of deferred tax primarily relates to capitalisation of carry-forward losses related to Germany of DKK 15 million. Furthermore, profit for the first half of 2018 of DKK 42 million includes negative goodwill of DKK 12 million which is non-taxable. Adjusted for these, the effective tax rate amounts to approximately 23%.

11. Financial risks and derivative financial instruments

Following the acquisitions of HDKS and Grupa Silikaty the risk profile has changed. The acquisitions have created a more balanced geographical footprint, i.e. less dependency on one market. Further, there is an increased exposure to the residential high-rise market segment. A successful integration of the acquired companies is a condition for harvesting the synergies.

Furthermore, with reference to note 8 “Financial resources and cash flow” following the rights issue, the company’s risk of refinancing external financing is lowered.

Besides the above-mentioned factors, H+H’s overall risk exposure and financial risks, including risks related to commodity prices, foreign currency, credit, liquidity and interest rate, are unchanged compared with the disclosures in note 25 in the consolidated financial statement in the Annual Report 2017.

Derivative financial instruments are measured at fair value and in accordance with level 2 in the fair value hierarchy (IFRS 7). The fair value of the contracts amounts to DKK 0 million at 30 June 2018. The contracts concern future purchases of EUR paid in GBP for the period July - August 2018.

12. Related parties

Related parties of H+H with significant influence include the Board of Directors or the Executive Board of this company and their close family members. Related parties also include companies in which the aforementioned persons have control or significant interests.

Transactions with related parties
H+H did not enter into any significant transactions with members of the Board of Directors or the Executive Board, except for compensation and benefits received as a result of their membership of the Board of Directors, employment with H+H or shareholdings in H+H.

13. Business combinations

H+H International A/S and its subsidiary H+H Deutschland GmbH have on the 28 February 2018 closed the acquisition of HeidelbergCement’s German and Swiss calcium silicate unit business (“HDKS”), cf. company announcement No. 353, of 14 December 2017.

HDKS primarily consists of 100% ownership of the legal entities Heidelberger Kalksandstein GmbH and HKS Hunziker Kalksandstein AG together with certain properties owned by subsidiaries of HeidelbergCement AG.

H+H International A/S’ subsidiary H+H Polska Sp. z o.o. have on the 4 April 2018 closed the acquisition of 99.19% of the shares in the calcium silicate business Grupa Silikaty Sp. z o.o. (“Grupa Silikaty”), cf. company announcement No. 349, of 7 July 2017.

The acquisitions are in line with the announced strategy of adding complementary products to the product portfolio to strengthen H+H’s position in the residential high-rise segment. H+H holds a strong position within aircrete in the Northern European region. With the acquisition of HDKS and Grupa Silikaty, H+H will accomplish several important strategic targets:

- Create a more balanced geographical footprint
- Expand its product offering, mainly within residential high-rise buildings, becoming the second largest European player within CSU
- Create scale and critical mass in the Polish and German operations, including expansion possibilities within both aircrete and CSU operations
- Benefit from best practice sharing between with the Polish and German operations
- Harvest synergies from the integration, estimated DKK 20 million when full integration is reached during the next three years

The purchase price of HDKS including a preliminary closing payment amounts to DKK 824 million and has been paid in cash. Estimated 2017 sales is DKK 500 million with an EBITDA of DKK 100 million. The business employs approximately 200 full-time employees.

The purchase price of Grupa Silikaty including a closing payment amounts to DKK 73 million. The purchase price will be paid according to an agreed payment schedule where approximately DKK 25 million was paid on the acquisition date and the remaining amount will be payable in two instalments each of approximately DKK 24 million by the end of January 2019 and 2020, respectively.

With reference to the condensed income statement for H1 2018 transaction and integration costs of DKK 20 million has been recognised as “Other operating income and expenses” of which DKK 18 million relates to the acquisition of HDKS and Grupa Silikaty. Transaction costs related to the acquisition of HDKS of DKK 8 million was occurred in 2017. In 2018, further transaction related costs are expected, comprising of special transfer tax on real estate and integration costs. In total DKK 23 million are expected to be recognised as costs in the income statement in the period July - December 2018.

For HDKS, the preliminary purchase price allocation shows acquired net assets at a fair value of DKK 691 million. The preliminary purchase price allocation may be subject to changes until 28 February 2019.

	Grupa Silikaty	HDKS	In total
	4 April	28 February	
Amounts in DKK million	**2018**	**2018**	
Customer relations	5	246	251
Order book	1	14	15
Trademarks	1	8	9
Property, plant and equipment	61	551	612
Financial assets	5	0	5
Receivables	28	29	57
Inventories	10	66	76
Cash	22	28	50
Acquired assets	**133**	**942**	**1,075**
Pension obligations	0	17	17
Provisions	12	5	17
Payables	23	41	64
Other current liabilities	7	24	31
Deferred tax	6	164	170
Assumed liabilities	**48**	**251**	**299**
Total identifiable acquired net assets	85	691	776
Goodwill in connection with the acquisition	(12)	133	121
Purchase price	**73**	**824**	**897**
Movements in cash flow in connection with the acquisition:			
Purchase price	73	824	897
Of which is cash acquired	(22)	(28)	(50)
Net cash flow in connection with the acquisition of "HDKS"	**51**	**796**	**847**

After recognition of identifiable assets, liabilities and contingent liabilities at fair value, goodwill relating to the acquisition has been determined at DKK 133 million. Goodwill represents the value of the existing staff, access to new markets as well as the expected synergies from the acquisition. The recognised goodwill is not tax deductible. The table below provides a summary of the purchase price for HDKS and the preliminary allocation of the fair value of acquired assets and liabilities on the acquisition date.

For Grupa Silikaty, the preliminary purchase price allocation shows acquired net assets at a fair value of DKK 85 million. The preliminary purchase price allocation may be subject to changes until 3 April 2019.

After recognition of identifiable assets, liabilities and contingent liabilities at fair value, negative goodwill relating to the acquisition has been determined at DKK 12 million. In accordance with IFRS 3, the negative goodwill has been recognised as income under “Other operating income and expenses”. The table below provides a summary of the purchase price for Grupa Silikaty and the preliminary allocation of the fair value of acquired assets and liabilities on the acquisition date.

The fair value of the acquired technical plant is estimated on the basis of the depreciated replacement value.

The fair value of the acquired finished goods is determined on the basis of expected selling prices to be obtained in the course of normal business operations less expected completion costs and costs incurred to execute the sale, and with deduction of a reasonable profit on the sales effort and a reasonable profit on the completion.

The fair value of the acquired raw materials and goods for sale is determined at replacement cost.
An estimate is made of the value of the acquired trademarks as well as the expected useful life of these. The fair value of the acquired trademarks is calculated by discounting the royalty payments that will be saved through owning the right of use of the trademark (the relief-from-royalty method). An after-tax discount rate of 12.0% has been applied.

The fair value of customer relations and order book is determined through use of the Multi-Period Excess Earnings method (MEEM). Customer relations and order book are calculated as the present value of the net cash flow generated by sales to customers after deduction of a reasonable return on all other assets which contribute to generating the cash flows in question. The fair value of the identified intangible assets is based on the discounted cash flows that are expected to be generated by the continued use or sale of the assets. An after-tax discount rate of 12.0% has been applied.

Receivables are valued at the present value of the amounts that are expected to be received less expected costs for collection. The Group’s loan interest rate before tax is used in the case of discounting. However, discounting is not used when the effect is immaterial.

Liabilities are valued at the present value of the amounts that are required for settling the liabilities. The Group’s loan interest rate before tax is used in the case of discounting. However, discounting is not used when the effect is immaterial.

Revenue and profit of the acquired business HDKS since 28 February 2018 included in the statement of comprehensive income for the reporting period amounts to DKK 184 million and DKK 21 million respectively.

Revenue and profit of the acquired business Grupa Silikaty since 4 April 2018 included in the statement of comprehensive income for the reporting period amounts to DKK 55 million and DKK 5 million respectively.

Revenue and profit of H+H including the acquired businesses HDKS and Grupa Silikaty for the current reporting period as though the acquisition date was 1 January 2018 amounts to DKK 1,255 million and DKK 25 million respectively.

14. Share capital

On 22 June 2018, H+H International A/S increased its share capital by a nominal amount of DKK 7,193,346 from DKK 71,933,460 to DKK 179,833,650. H+H International A/S's total nominal share capital is DKK 179,833,650 divided into 17,983,365 shares of nominal DKK 10 each, corresponding to 17,983,365 votes.

15. Discontinued operations and assets held for sale

H+H own some land which is located close to residential areas or on areas that could be further developed. For 'Borough Green Gardens', no events have occurred in H1 2018 materially affecting the assessment given in the annual report for 2017 re. page 12.

The company regularly review whether land or other assets is to be sold or maintained. No assets are classified as assets held for sale because it is unlikely they will be sold within the next 12 months.

No companies are classified as discontinued operations for 2018. The Ukrainian subsidiaries H+H Ukraina TOV and H+H UA TOV was sold on 13 June 2018. For 2017, the Finnish subsidiary Stone Kivitalot Oy and the Ukrainian subsidiaries H+H Ukraina TOV and H+H UA TOV were classified as discontinued operations.

16. 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.