Annual Report

H + H International A/S

2018

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Introducing H+H

H+H – in brief

H+H is partner in wall building across Europe

H+H is a wall building materials provider. The core activity is production and sale of autoclaved aerated concrete (AAC or aircrete) and calcium silicate units (CSU or sand lime bricks). The products are building blocks used for wall building primarily in the residential new building segment.

The product range also includes more advanced products such as high-insulating blocks, larger elements and a range of traded goods used for wall building.

H+H has 28 factories in Northern and Central Europe and Northwest Russia with a total annual output of approximately four million cubic metres of wall building materials and a leading position in most of its markets. The Group has more than 1,600 employees.

The business is cyclical and H+H is always pursuing organic growth and margin improvements. In addition, restructuring of the markets in Central Europe is on the strategic agenda.

The parent company H+H International A/S has its headquarter in Copenhagen, Denmark and the company is listed on Nasdaq Copenhagen.

THE H+H GROUP

REVENUE IN DKK MILLION

2,523

EBITDA BEFORE SPECIAL ITEMS IN DKK MILLION

410

95.0

SHARE PRICE, YEAR-END (DKK)

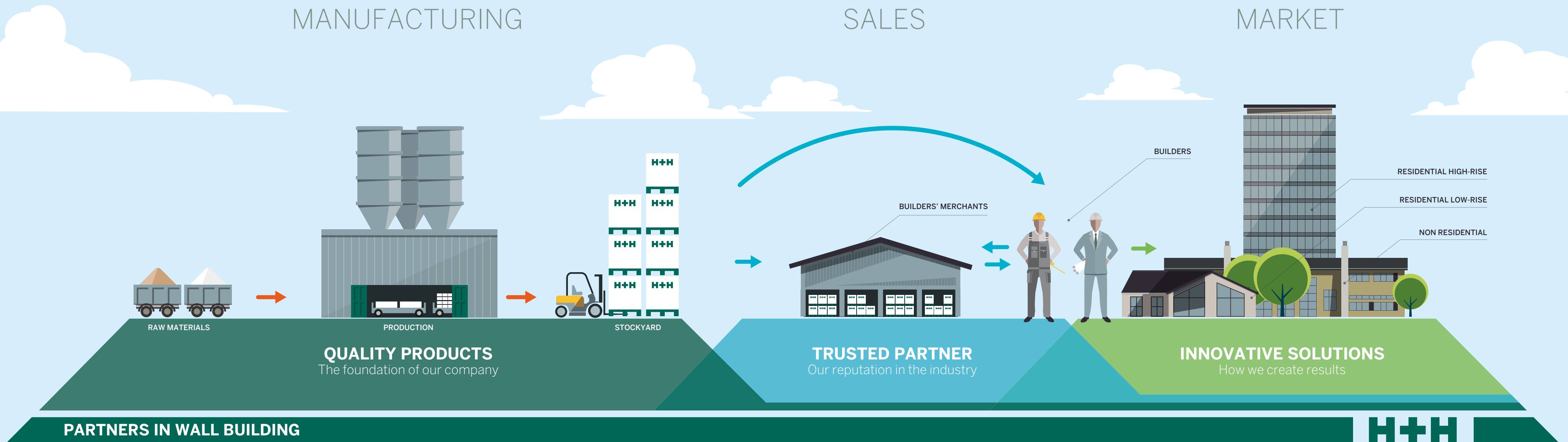
NUMBER OF FTE

1,651

41%

SOLVENCY RATIO

Business model



Quality Products

Key raw materials in H+H's products are nature's own sand, water and lime. In AAC cement and aluminium are added.

H+H has, during many years, achieved a solid experience in producing wall building materials. The know-how, experience and research have enabled a robust manufacturing process and, most importantly, products with strong properties for sustainable buildings.

- **Flexibility and quality.**
- **Improved energy savings.**
- **Improved indoor climate.**
- **Substainable solutions.**

Trusted Partner

H+H focuses on adding value to costumers throughout the entire building process.

The commitment to high standards includes comprehensive sales office support, electronic trading facilities, flexible delivery times, easy access to technical and sales information and regular sales review meetings with key customers.

- **Availability.**
- **One-point of contact.**
- **One-stop shop for wall building.**
- **Transparency.**
- **Reliable delivery.**

Innovative Solutions

H+H supports the products with research and development programs and continuously improves and expands the product range through technological developments and design innovation.

H+H continually updates and refines the products and ensure that they meet regulatory requirements.

- **High quality solutions.**
- **On-site support.**
- **Improved workflows and processes.**
- **Technical support and material expertise.**

Performance & Strategy

Significant development for H+H in 2018

> **H+H wants to support builders' and planner's main focus areas of concern, e.g. energy efficiency, sustainability and lack of labour. As H+H's product offering already delivers very well in respect of energy efficiency and sustainability, we see opportunities for H+H to combine its knowhow and brand with new products to continuously build on H+H's partner in wall building approach.**
>
> Kent Arentoft, Chairman

2018 has been a very busy year for H+H and the efforts have paid off. H+H has reached a number of milestones; revenue increased by more than 50%, the number of factories increased from 13 to 28 factories and the number of employees increased from around 1,000 to more than 1,600 employees.

Furthermore, we have strengthened our balance sheet with the proceeds from a share emission and have achieved the desired robustness. H+H is now in a position where we can more easily sustain the economic cycles and at the same time grow the business further.

Strategy and market trends
During 2018, H+H closed two significant acquisitions, Grupa Silikaty in Poland and HDKS in Germany and Switzerland. This has expanded H+H's product portfolio with CSU, which are predominantly used in the residential high-rise segment in Central Europe.

The acquisitions solved a number of strategic issues for the Group. First of all, H+H is now geographically better balanced, with three core markets, compared to previously only one. In 2017 the UK was around 43% of Group revenue, in 2018 the UK was around 32% despite increasing revenue. Secondly, H+H has now achieved critical mass in the German and Polish operations. Thirdly, due to the expanded product portfolio with CSU, H+H has established a strong market position in the residential high-rise segment.

The new business configuration creates further opportunities for H+H to participate in market restructuring within our business area. We see potential for optimising our position as some competitors suffer from excess capacity, some family-owned businesses have succession issues and other businesses are subsidiaries in groups where wall building materials are non-core business.

A good example of H+H's role as consolidator is the preliminary share purchase agreement of a CSU plant close to Dresden signed on 28 December 2018 (subject to extension of excavation permits), further details see note 25. We will continue to pursue such opportunities if there is a strategic fit and the business case is attractive.

The change of H+H's strategic scope from being a one-product company to becoming a partner in wall building opens up for adding other products and gave H+H a broader product portfolio.

H+H wants to support builders' and planner's main focus areas of concern, e.g. energy efficiency, sustainability and lack of labour. As H+H's product offering already delivers very well in respect of energy efficiency and sustainability, we see opportunities for H+H to combine its knowhow and brand with new products to continuously build on H+H's partner in wall building approach.

To ensure transparency in our commitments around sustainability we have this year added measurements in this report, see page 25

Digitalisation of the building industry may be the key to solve the increasing lack of labour, but as it is now the potential productivity improvements have not materialised. The value chain is highly modularised and no single solution in sight will solve the challenge. H+H continues to participate in projects to help improve the efficiency of building, but due to our relative size in the industry, we aim to be a fast follower rather than a first mover.

The journey towards the long-term financial targets
We updated the long-term financial targets in the beginning of 2018.

Market predictions for our core markets continue to be positive although there are more clouds on the horizon than the previous year.

We expect to grow revenue in 2019. This, in combination with achieving synergies from the acquired business, expected impact from efficiency programs and carry over effects from 2018, will increase earnings in 2019 given a stable and sound macroeconomic development.

H+H operates in a cyclical business. Our targeted financial gearing ratio reflects that it is of utmost importance to be able to sustain future downturns, although the company may exceed the indicated range in periods with significant acquisitions.

For the time being, we expect to use the free cash flow to develop the existing business and pursue value-added investments in the form of acquisitions, within the debt gearing indicated in the long-term financial targets.

Finally, we would like to thank our employees for their commitment and contribution to the strong results in 2018 and for the continued support from our investors.

On behalf of the Board of Directors,

Kent Arentoft

Long-term financial targets

EBIT-MARGIN BEFORE SPECIAL ITEMS

11% at least

9% in 2018

RETURN ON INVESTED CAPITAL

12% at least

10% in 2018

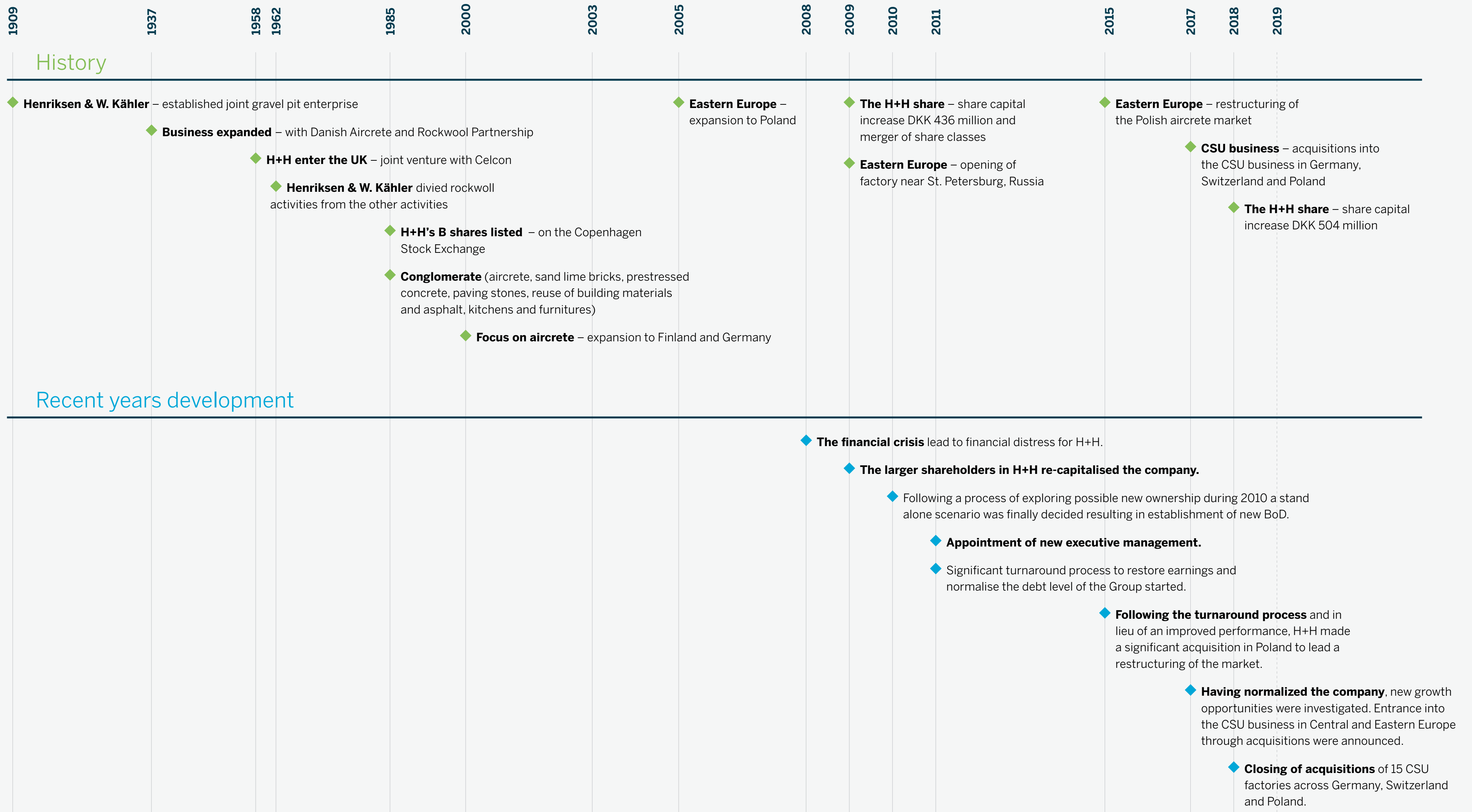
FINANCIAL GEARING

Net interest-bearing debt to EBITDA before special items

1-2

1.3 in 2018

More than 100 years of experience



Key figures

	Group				
(DKK million)	**2018**	**2017**	**2016**	**2015**	**2014**
Income statement					
Revenue	2,523	1,622	1,611	1,621	1,380
Gross profit	653	434	405	410	341
EBITDA before special items*	410	242	211	182	140
EBITDA	345	212	214	232	137
EBIT before special items*	228	165	122	80	48
EBIT	163	134	125	130	45
Profit/loss before tax	125	116	104	94	1
Profit/loss after tax for the year	125	90	89	39	(23)
Balance sheet					
Assets	2,421	1,327	1,188	1,246	1,217
Invested capital	1,582	907	760	730	763
Investments in property, plant and equipment	138	109	83	61	43
Net working capital	(82)	58	(66)	(114)	(12)
Equity	1,000	377	278	255	152
Net interest-bearing debt (NIBD)	525	460	387	445	517
Cash flow					
Cash flow from operating activities	370	83	143	112	93
Cash flow from investing activities	(973)	(144)	(75)	(54)	(33)
Cash flow from financing activities	679	66	(110)	(71)	(13)
Free cash flow	(603)	(61)	68	58	60

	Group				
(DKK million)	**2018**	**2017**	**2016**	**2015**	**2014**
Financial ratios					
Organic growth	18%	3%	6%	9%	9%
Gross margin	26%	27%	25%	25%	25%
EBITDA margin before special items*	16%	15%	13%	11%	10%
EBITDA margin	14%	13%	13%	14%	10%
EBIT margin before special items*	9%	10%	8%	5%	3%
EBIT margin	6%	8%	8%	8%	3%
Return on invested capital (ROIC) (excl. goodwill)**	10%	16%	16%	16%	5%
Solvency ratio	41%	28%	23%	20%	12%
NIBD/EBITDA ratio	1.5	2.2	1.8	1.9	3.8
ESG measures					
FTEs	1,651	1,062	1,041	1,034	866
Temp. workers ratio	2%	2%	2%	-	-
Gender diversity	15%	16%	16%	-	-
Leavers	228	142	137	-	-
Employee turnover ratio	14%	13%	13%	-	-
CO_2e (kg per m^3) - Scope 1	33	28	30	-	-
CO_2e (kg per m^3) - Scope 2	13	15	14	-	-
Total Energy per m^3 (GJ)	0.6	0.5	0.5	-	-
Share of renewable energy	4%	5%	5%	-	-
Water consumption per m^3 (litre)	364	373	415	-	-
Share of harvested water	2%	3%	3%	-	-

Financial ratios and ESG measures have been calculated in accordance with recommendations from the Danish Society of Financial Analysts.

* Special items comprise of non-recurring income and expenses. Refer to page 32 for further information on special items recognised in 2018.

** 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 2018 has been calculated as “Operating profit (EBIT)” held against the average invested capital (excluding goodwill), both measured on a twelve months basis.

Outlook for 2019 and long-term financial targets

Outlook for 2019

- Revenue growth before acquisitions and measured in local currencies is expected to be around 7%.
- EBITDA before special items is expected to be DKK 445-495 million.
- EBIT before special items is expected to be DKK 270-320 million.
- Investments excluding acquisitions and divestments are expected to be in the region of DKK 160 million including investments for establishing a CSU production line near Gdansk, Poland.

Assumptions for the outlook for 2019

Specific assumptions
The expectations for H+H's financial performance in 2019 are based on the following specific assumptions:

- Brexit will not lead to a significant decrease in demand.
- Continuous economic growth in H+H's geographical footprint.
- The excellence programs continue to deliver improvements.
- Exchange rates, primarily for GBP, EUR and PLN, hold at their mid-March 2019 levels.
- Positive impact from IFRS 16 on EBITDA is in the region of DKK 22 million.
- Positive impact from IFRS 16 on EBIT is in the region of DKK 4 million.
- Energy and raw material costs expected to rise at levels exceeding inflation.

General assumptions
The expectations for H+H's financial performance are 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.
- Developments in the market for building materials.
- Distribution factors.
- Weather conditions.
- Macroeconomic and geopolitical developments.
- The factories run without significant breakdowns.

Long-term financial targets

EBIT-MARGIN BEFORE SPECIAL ITEMS

11% at least

RETURN ON INVESTED CAPITAL

12% at least

FINANCIAL GEARING
Net interest-bearing debt to EBITDA before special items

1-2

Management review

How H+H's world changed

The CSU acquisitions were closed in 2018 followed by a share emission and significant integration efforts. This was an important game changer for H+H. The way H+H is organised, the branding strategy, how H+H drives excellence programs, the financial situation and the risk exposure is now significantly different from 12 months ago.

H+H went from 13 to 28 factories, from around 1,000 employees to more than 1,600 employees, from a narrow to a broader product portfolio and expanded into adjacent geographies. This required a thorough review of H+H's whole setup to maintain the agility and momentum that has prevailed in H+H in recent years. A couple of examples are the branding of H+H and the increased transparency on sustainability as this is one of the top priorities of the customers.

In parallel to the acquisitions, the factory upgrade in Borough Green in the UK was also successfully completed. Furthermore, with the prevalent uncertainty concerning Brexit looming throughout the year, the risk profile in this respect has also been reviewed carefully on an ongoing basis in 2018.

Business performance in 2018

The financial performance in 2018 was once again satisfactory, as H+H improved the result over 2017 based on a combination of the earnings of the acquired CSU businesses and improved earnings from the AAC business. In fact, the result is the best ever in the history of H+H.

During the year H+H upgraded the outlook for EBITDA from DKK 350-390 million to DKK 390-410 million and is able to report an EBITDA before special items of DKK 410 million which is DKK 168 million better than the year prior.

The results are driven by organic growth as well as profit from the acquisitions. Sales prices have increased, but this is also necessary to counter the increasing inflationary pressure from cement, lime, transport and energy. The increasing energy costs are primarily arising from increasing costs for emission allowances and state-controlled distribution. At the same time, factory stand-stills reduced the overhead recovery from production during the year and increased transport costs.

H+H Group projects such as a purchasing program has been vital to offset some of the inflationary pressure. The ongoing improvement projects have continuously increased the production output of factories beyond their anticipated capacity ceiling.

Integrations

The approach towards integration of the acquired business in Poland is different to the acquired business in Germany and Switzerland. This is not only due to the difference in value of the two acquisitions, but also due to the rationale behind the investments and the acquired earning levels.

In Poland H+H had an organisation that had already successfully carried through a large market restructuring in 2015 when the aircrete business Grupa Prefabet was acquired and integrated into H+H. Hence, the integration framework applied in 2015 was reviewed and adapted to the new situation. Further, the business case in Poland has relatively higher synergies than the business case for the acquisitions in Germany and Switzerland.

Until last year, H+H in Germany had not made any acquisitions since entering the German market back in 2002, except for the brownfield build of the Wittenborn II factory inaugurated in 2006. In light of this and also due to the fact that the acquired CSU business in Germany and Switzerland was larger than the CSU business acquired in Poland, a somewhat longer integration process has been adopted.

> **Strong organic growth in combination with good performance in the acquired businesses was the basis for the strong result in 2018. We pursue further M&A opportunities in Central Europe as we see a need for market restructuring and H+H is in a unique situation to participate in such.**
>
> Michael Andersen, CEO

Integration Poland

The main focus in Poland was a fast integration of the CSU company Grupa Silikaty into the existing H+H Poland setup. The rationale behind this approach was that the risk was limited due to low earnings of the acquired business, and synergies were tangible from both the market and operations side. Overall, most of the structures and processes were in a state where the acquired business could be folded into the H+H-structure.

On the market side one joint sales force for AAC and CSU was established during the first three months, and the joint product offer had a head start due to a strong market demand and the proximity between the AAC and CSU factories.

On the branding side the transformation took place at a lower pace than the integration of the sales forces, as the brand transformation had to be aligned with the group-wide H+H branding project initiated following the acquisitions into the CSU business in Poland, Germany and Switzerland.

In operations it quickly became evident that a number of minor improvements could increase the production capacity of the acquired factories. In addition to this, a thorough review of the investment requirements was conducted and a roadmap on how to bring the acquired CSU business into the desired setup was put in place. This includes investment in a CSU production line near Gdansk on the land of H+H's existing AAC factory. This is in line with the strategic opportunities communicated before the share emission, and it is the only place in the geographical footprint we see a sensible business opportunity in adding new capacity. Full synergies from the CSU acquisition in Poland are expected from 2019.

INCREASE IN USE OF CSU IN POLAND IN 2018

12%

Upgrade of the factory in Borough Green

The upgrade which was carried out in the first half of 2018 transformed the 30-year-old AAC factory in the UK into the most technically advanced and efficient aircrete factory in Europe. When running at full capacity, the factory can produce around 20% more volume than prior to the upgrade.

The factory was commissioned according to the announced time table. After some months of optimizing the production, full output has been achieved in the latter part of 2018.

With the factory expected to be manufacturing aircrete blocks for the next 30 years, it has also been designed with some significant future-proofing. Blocks produced at Borough Green are manufactured based on PFA (pulverised fuel ash), but given the phasing out plan in the UK for coal fired power stations, it was considered prudent to design the upgraded factory so that increased quantities of sand can be used instead of PFA as and when PFA becomes more difficult to source. Further investments are needed to achieve a full transformation from PFA to sand-based AAC.

Restructuring opportunities

One of the elements in H+H's strategy is to be a driving force in the restructuring of the Central European markets for AAC and CSU, and this strategy element was one of the key rationales behind the size of the share emission completed in June 2018.

In line with the strategy to restructure the Central European markets, H+H signed a conditional purchase agreement for 51% of the ownership in a CSU factory near Dresden (Baustofwerke Dresden GmbH & Co. KG). If the acquisition is completed and closed as expected, it will complement H+H's network of CSU factories in the Eastern part of Germany. The enterprise value for the 51% is around DKK 68 million that will be paid cash at closing.

To support its network of CSU factories in Poland, H+H has decided to develop its current site in Reda near Gdansk where an AAC factory is located, so that the site shall also host a CSU production line. There are no local CSU producers in this area and by using the existing land and some shared facilities with the existing AAC factory, H+H is able to get the CSU production line ready for production mid 2020 with an investment of around DKK 30 million which is a significantly lower investment rather than building a greenfield factory.

H+H has announced keen interest in participating in further restructuring of the Central European markets for wall building materials. It is likely that some family-owned businesses have succession issues, and other businesses are subsidiaries in groups where wall building materials are non-core business.

H+H has identified potential acquisition targets and has an ongoing dialogue with some of these targets. However, the ability to complete future acquisitions and the timing will naturally depend on the market development and other factors outside the control of H+H.

H+H's position around St. Petersburg is based on one factory supplying to the local market. The market share in the local market is around 30%. H+H will pursue opportunities to change the strategic position but are only willing to inject a limited amount of cash into such restructuring given the uncertain market outlook for the Russian market.

Optimise utilisation of land

A land plot at Borough Green owned by H+H is a part of 'Borough Green Gardens', a consortium of local landowners and businesses that have submitted preliminary proposals to the local council.

The proposals of the consortium endeavor to help the local community to meet the continued demand for new housing. If the proposal is agreed it will release the financial potential of a currently unused asset.

The potential divestment of the land will not impact the operation of the factory in Borough Green.

Around the Borough Green factory there are sand reserves available on land plots owned by H+H UK. Following a strategic analysis of the aggregate sourcing options it has been decided not to pursue excavation rights for the time being.

Integration Switzerland

Integration of the plant in Switzerland is partly to be seen in connection with the German integration, but on a number of areas the Swiss business will continue to act on a stand-alone basis. The business is performing well with limited synergies to be gained. Overall, focus has been on maintaining the market position and only where it makes sense to incorporate the operation into the German organisation this will be done.

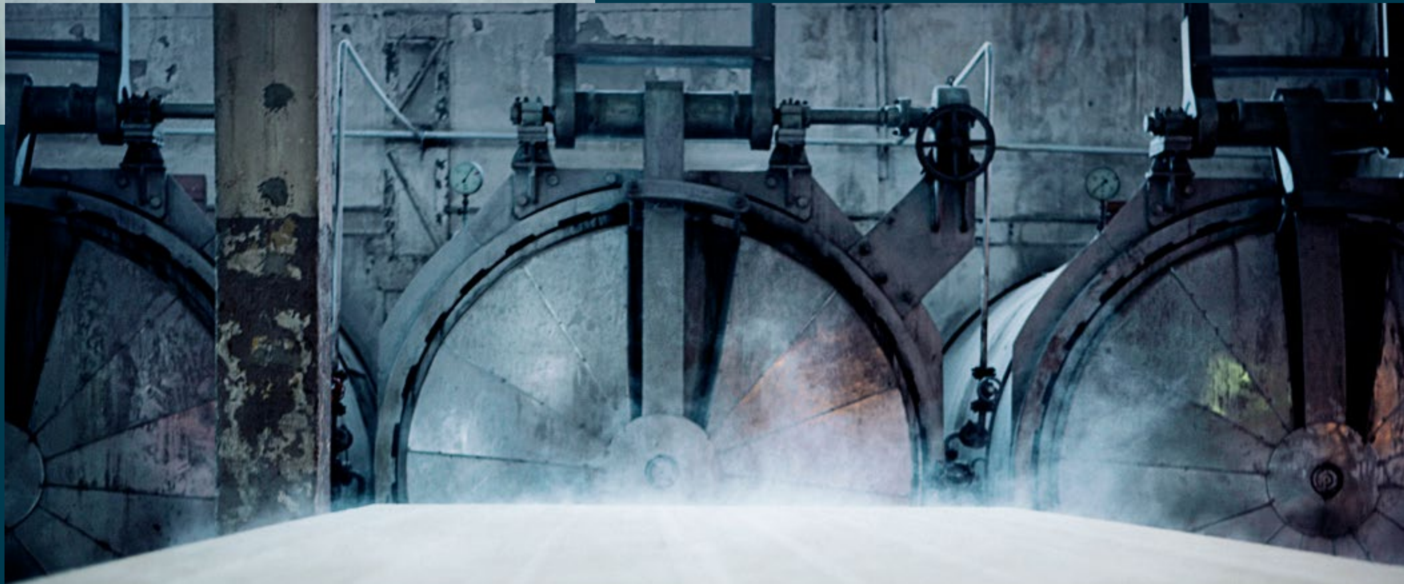
Integration Germany

The structure in Germany did not cater for a fast integration. For the first six months in control of the new CSU business the AAC and CSU businesses were managed separately similar to pre-acquisition. In addition to this, various work groups began working on projects to plan and harvest the anticipated synergies.

Gradually, more and more functions were taken over by a new integrated H+H setup and a new organisation is now in place.

On the market side, sales forces for AAC and CSU are for a while still running separately, but will gradually be brought into one joint sales organisation. The geographical overlap between AAC and CSU plants is limited.

In operations the two product areas will continue to run separately on the day to day operations, but on subjects such as health and safety, procurement, IT etc. a matrix organisation will ensure optimal resource utilisation and knowledge sharing.

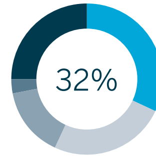


Markets are set for growth

H+H's business model is depending on a sound macroeconomic development. This, in combination with megatrends around urbanisation and sustainability, are key drivers for the industry to grow. In addition, various national governmental stimuli have helped the industry. H+H has enjoyed high organic growth in 2018 and expects that 2019 will bring growth as well.

Western Europe

The UK



The UK market for residential housebuilding continues to increase. The market grew around 2% in 2018 and is anticipated to grow at a similar rate in 2019.

The market for wall building materials are fairly consolidated in all parts of the value chain. Among distributors further consolidation seems to be on-going and there is a political desire to boost small and medium-sized housebuilders, but this is not seen at a significant level yet.

The 'Help to buy' program has been extended from 2021 to 2023 when it will close. In the extended period there are more strict entry terms. It is expected that the extension will help support the continuous growth in housebuilding and we are confident about the mid- to long-term market outlook. For 2019 the impact of Brexit is difficult to predict, but there are a number of mitigating factors in case the housebuilding industry should decline. First of all, around 10% of the AAC market in the UK is imported by competitors to H+H, in which case tariffs and depreciation of GBP imports will suffer. Furthermore, there is a back-log of initiated projects that are expected to be completed.

On the sourcing side more than 95% of H+H production costs in the UK are domestically sourced and inventory of imported goods cover at least 3 months of production. Capacity utilization in the wall building materials industry is very high. This is partly impacted by the PFA situation that in periods reduces the capacity in the aircrete business. The market growth is expected to absorb the additional volume from the capacity increase following the upgrade of the Borough Green factory as well as additional capacity from domestic manufacturers and imports. These additional capacities limit the price increases that can be achieved.

Dense blocks, timber and stud walls are the main substitutes to aircrete. As various products have experienced demand exceeding supply during the ramp up of capacities in recent years' growth journey, there has been substitutes available that have satisfied the interim undersupply.

H+H market share was maintained during 2018 despite the interim closure of the Borough Green factory during its upgrade.

The UK market in brief

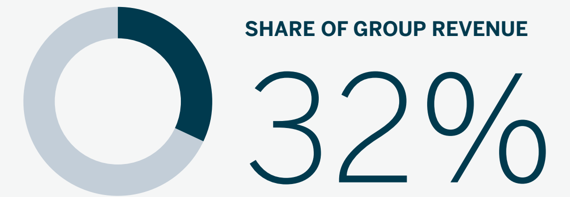
ESTIMATED MARKET SIZE

3 mill. m^3

NO. OF H+H FACTORIES

3

SHARE OF GROUP REVENUE



32%

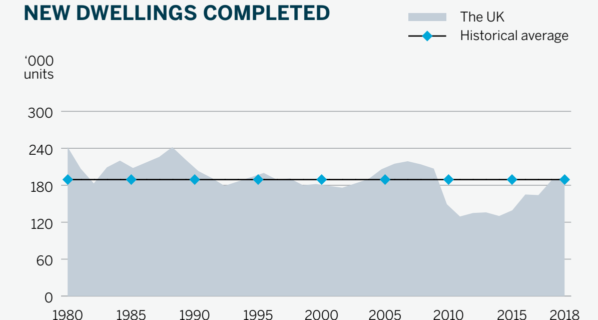
High

CAPACITY UTILIZATION IN 2018

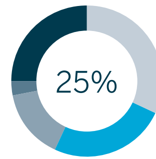
MAIN COMPETITORS

Tarmac and Forterra

NEW DWELLINGS COMPLETED



Germany



The German market was performing as expected in 2018.

The low-rise housing segment was anticipated to be flat due to constraints related to transport and lack of skilled labour. No resolutions on any of these are in sight, hence a flat market development in this segment is also anticipated for 2019.

In the high-rise building segment there has been considerable growth. In periods where all H+H factories have been running, H+H performance has been in line with the market development. Unfortunately, renovation of the Kavelstorf factory was delayed, so over the summer the anticipated share of the market growth was not achieved. The Kavelstorf factory is now operating again.

Housebuilding is also on the political agenda in Germany. Various programs give some incentives for home owners, but the market impact seems limited due to the challenges of the constraints.

Furthermore, the duration of the programs is limited and probably not enough to convince builders to invest to overcome the challenges. This, in combination with the market structure and lack of productivity improvements from digitalization and innovations give low expectations to the outcome of the political incentives.

Capacity utilization in the building materials industry is good, but some capacity is still available. In some regions clay products have increased their market penetration against "the white stones", i.e. AAC and CSU. There is no new capacity installed in Germany, but there is newly installed capacity in the Western part of Poland which, based on the relative pricing in Germany and Poland, is expected to increase the supply in Germany. Furthermore, a competitor has a CSU factory under construction in the Western part of Germany.

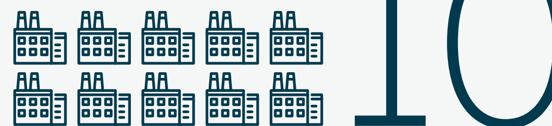
The above-mentioned factors are limiting price increases in the market place despite significant cost increases. This is not sustainable for the industry which is why further market restructuring is expected and needed.

The German market in brief

ESTIMATED MARKET SIZE

7.5 mill. m³

NO. OF H+H FACTORIES



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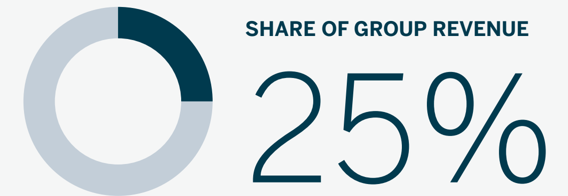


SHARE OF GROUP REVENUE

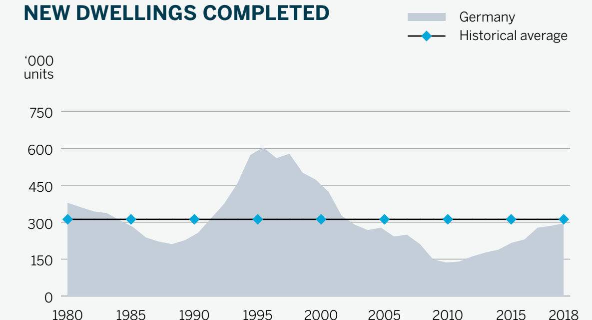
25%

CAPACITY UTILIZATION IN 2018

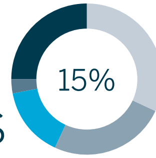
High but still overcapacity in AAC

MAIN COMPETITOR Xella

NEW DWELLINGS COMPLETED



Other Western European markets



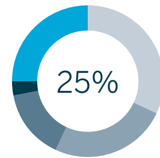
In Denmark the market continues to be strong although growth is at a lower pace than in previous years. More imported wall building materials are seen in the market place, which is a reflection of the market attractiveness and the unrest in the distribution channels that are characterized by over-capacity. In consequence, sale directly to housebuilders without builders merchants as intermediate has begun to appear, which may be the future for heavy-side products in the Danish wall building market. H+H will follow the development to ensure H+H's competitive situation.

In the Benelux countries building activity is continuing to increase. H+H has maintained its market share and expects continuous growth in the Benelux market for 2019.

The Swiss market is developing in line with expectations. The market situation is characterized by a few local players and imports. Outlook for 2019 is flat at a sustainable level, and capturing cost inflation to keep the profitability ratios is the primary aim under the current market situation.

Eastern Europe

Poland



The Polish macroeconomy has been strong in recent years. The building activity level reflects this in all segments. All H+H factories are running at or close to full capacity utilization.

Following recent market restructuring – led by H+H – the supplier base of wall building materials is more consolidated than in the past. The distribution channels are still characterized by a high degree of fragmentation and the market has a high share of spot sales. Hence, in times with significant changes in supply or demand there is an instant impact on pricing.

Housebuilding is as such not subsidised in Poland although recent governments have given various incentives that indirectly have supported housebuilding. The key driver for the growth in recent years has been the general economic development and the old housing stock.

Following years with capacity reductions most wall building material producers now enjoy high capacity utilization. With the increased market demand there has been projects initiated to increase capacity. In the AAC business there was one new factory brought online by a competitor during 2018. In the CSU business it is expected that two competitors will bring additional capacity online during 2019 as well as H+H's announced CSU line near Gdansk which is expected to be able to supply to the market in 2020.

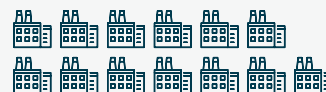
Going forward there are limited opportunities for further market restructuring among the manufacturers of AAC and CSU products. The strategic opportunity is to expand the product portfolio further with additional wall building materials. In the distribution channels there are no signs of consolidation, hence the spot-based pricing mechanism is expected to continue in the foreseeable future. However, H+H continues the efforts to increase the share of pull sales.

The Polish market in brief

ESTIMATED MARKET SIZE

7 mill. m³

NO. OF H+H FACTORIES



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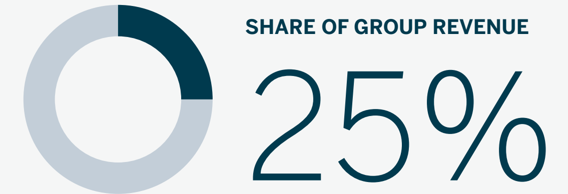


SHARE OF GROUP REVENUE

25%

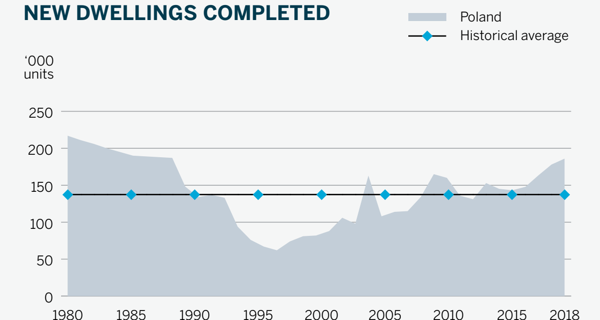
High

CAPACITY UTILIZATION IN 2018

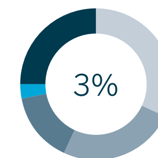
MAIN COMPETITORS

Xella and Solbet

NEW DWELLINGS COMPLETED



Russia



The market in North-West Russia was again a disappointment in 2018. After losing market share in 2017, H+H has taken market share in the low-rise housing segment in 2018 which in combination with slightly higher prices improved earnings and optimized H+H Russia's position in a depressed market. H+H has one factory and a strong market position.

Capacity utilisation in general is not at attractive levels for the wall building material producers. There are limited restructuring opportunities, as all producers are able to deliver positive results and thereby stay in the market. To get to satisfactory earnings, significant improvements in the market and the geopolitical situation are required.

A re-branded business

With an update of the H+H brand – in consequence of the expanded product range – some reflections on why the new 'partners in wall building' is the right promise to the market is worthwhile.

The customers' building processes are continuously developing. There tends to be some consolidation and more and more stakeholder requirements; new buildings require less maintenance, are more energy efficient and the architectural requirements have become even more sophisticated. Everyone is under pressure to work faster, smarter and more efficiently.

H+H knows what customers want
To help solve the customers' demands H+H wants to engage in a partnership with the customers. Having asked customers and other stakeholders what they see as the major trends and challenges there is a consensus that increasing building material costs, lack of qualified labour, rising demands for greater energy efficiency and sustainability are their main challenges.

H+H believes that collaboration creates lasting value. By understanding the customers, their local needs and industry trends, H+H can help the customers overcome challenges today – and tomorrow. This makes H+H the ideal partner and one-stop shop for every wall building project. As true masonry specialists, H+H also knows exactly how to optimize the building process.

H+H understands the process
From planners and architects, to distributors and builders, H+H cooperate with all stakeholders through every stage of the wall building process.

With solid process expertise and a complete range of sustainable wall building materials, H+H can ensure its customers that by using H+H's product systems they will experience the benefits of effective workflows, timely project completion, as well as increased cost efficiency and high-quality results.

Whether in planning, distributing or building, working with H+H, the customer will benefit from a professional, trustworthy partner supporting the customer at every stage of the building process.

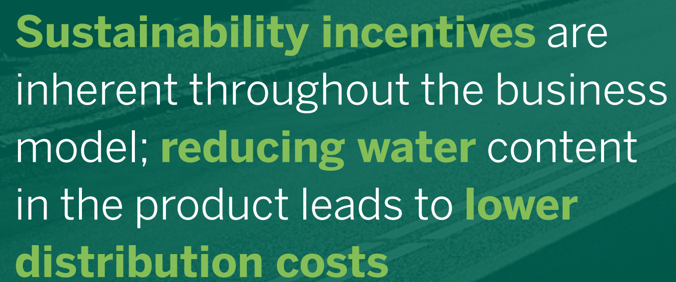
H+H provides a sustainable end product that gives improved indoor climate and energy savings, and long-term relationships with distributors ensures solutions are available to meet the customers' demands. Customers can always rely on H+H to ensure high-quality wall building materials are delivered on site, to the right place, at the right time.

Sustainable end-products
Ultimately, homes, flats, offices and other buildings need to be comfortable, safe and sustainable. H+H's wall building solutions have been specially developed to deliver futureproof results:

- Healthy indoor climate.
- Energy efficiency due to excellent thermal insulation.
- Fire-resistance and safety.
- Acoustic insulation between rooms.

These are just some of the many benefits people who use and live in buildings with H+H solutions will enjoy.

H+H supports customers from the very early planning stages with a complete range of sustainable wall building solutions, process expertise and guidance on how to optimize the wall building process.



Sustainability incentives are inherent throughout the business model; **reducing water content** in the product leads to **lower distribution costs**

Sustainability is of strategic importance

The H+H branding project initiated due to the inclusion of CSU products into the product portfolio stressed that sustainability is high on the customers' agenda. For products like H+H's there are many ways to measure the impact of the products on the surroundings. H+H has a number of benchmarks towards other building materials, and in general the H+H products are performing well. To increase transparency H+H has enhanced the quantification of the environmental impact of manufacturing the products.

Doing business in a sustainable way is an integral part of all of H+H's activities. The products are sustainable wall building materials and provide comfortable, safe and healthy buildings due to excellent indoor climate, thermal insulation, fire resistance and acoustics.

It stems from the nature of the products that they are energy intensive and require raw materials of which are energy intensive such as lime and cement. As these raw materials are huge cost drivers, there are mutual benefits for H+H and its customers in optimising the use of these raw materials as it will not only increase competitiveness, but also benefit the environment.

Less environmental impact
Sustainability is important for H+H and H+H's customers. As part of the ongoing process to continuously improve the performance of the products and limit the impact of the manufacturing process on the surroundings, H+H reports on key figures for water consumption and carbon emissions. The base line measurements that have been set are based on the accessible data for the years 2016-2018 and reflects the changes in product mix from 2018 where CSU was added to the product portfolio. In addition, the numbers are impacted by the upgrade of the Borough Green factory and H+H's ongoing efforts on improvements in the production setup.

Environmental impact 2016-2018

Measure	2018	2017	2016
CO_2e per m³ – Scope 1	33	28	30
CO_2e per m³ – Scope 2	13	15	14
Total Energy per m³ (GJ)	0.6	0.5	0.5
Share of renewable energy	4%	5%	5%
Water consumption per m³ (litre)	364	373	415
Share of harvested water	2%	3%	3%

All environmental measures are calculated as a 'consumption per m³' basis.

Water consumption reduced in 2018
H+H has in recent years focused on reduction of water consumption as this is a vital driver in the manufacturing process. Use of harvested water, recycling of water in the production process and lower water content in the products have been the main workstreams.

Water used in the production process comes predominantly from local wells. In some factories, advanced water management systems are in place to harvest rainwater and waste water from the manufacturing process, significantly reducing the quantity of water that needs to be drawn from main supplies.

Water consumption showed a positive trend in 2018 with a decrease of 3%, which is primarily due to the effect of CSU factories.

Carbon emissions affected by acquisitions in Poland
H+H will at all times try to optimize energy consumption to minimize the impact on the environment, but it is not always possible with the infrastructure in the established markets.

CO_2E PER M³ IN 2018 – SCOPE 1

33 KG

TOTAL ENERGY PER M³ IN 2018

0.6 GJ

WATER CONSUMPTION PER M³ IN 2018

364 LITRE

The greenhouse gasses from the production of aircrete and CSU are:

- Carbon dioxide (CO_2).
- Methane (CH_4).
- Nitrous oxide (N_2O).

The greenhouse gasses come from the boiler outlet used to generate steam for the autoclaving process.

The net increase in CO_2 per m³ in 2018 covers the use of coal fired steam generators during the autoclaving process in the acquired CSU factories in Poland. The CO_2 emission in these factories is almost twice as high as the group average. The emissions from the rest of the factories are more or less on par with each other and slightly better than previous year.

The coal fired steam generators in the Polish CSU factories are often the only alternative as there are no nearby pipelines for gas and alternative fuel like biomass or recovered fuel does not have a stable supply chain in the region. Hence, no short-term alternatives are available, although Poland is developing its market for renewable energy and investing into extending the gas pipelines to improve the availability of alternatives to coal.

2019 improvement projects.
In recent years some factories have converted to LED lighting. This brings energy savings and the new systems are less vulnerable, so lower maintenance is another positive consequence. H+H will in 2019 continue to install LED and sensors in some of the factories where this is not already in place.

Increasing harvesting of rainwater is also possible and expected to be initiated during the year. Finally, opportunities around solar panels will be investigated for as well factory roofs as well as adjacent unused land.

> **The new CSU production line in Reda near Gdansk, Poland will produce products with less CO_2 emission. There are shared facilities with the current production line and the boiler is gas fired.**

Sustainability is a part of the capital expenditure priorities

By design H+H integrates sustainability aspects into capital expenditure prioritization.

Often there is a direct link between financial and business needs that can be linked to a more gentle impact on the environment e.g. from energy or water savings.

In Poland, the factory in Warsaw is currently supplied with steam from a coal fired steam boiler located a few kilometers away.

There has been raised doubt over how long time this service is available. To avoid business interruptions H+H have decided to build its own boiler house to generate steam for the autoclaving process even before the service is being shut down.

The new boiler house located on the factory site in Warsaw will be gas fired (imported LNG) which will lead to less Co2 emission. On top of this comes that there is no transmission loss from the power plant to the H+H plant. Finally, higher pressure from the new boiler will increase the efficiency of the autoclaving process.

The annual reduction of Co2 from this single factory is estimated to be more than 40% from this investment and a fine example of how H+H target to combine the interests of as well business as sustainability.

How to reach the strategic ambition

Recap of solved strategic issues

Until recently, penetration of the high-rise building segment in Central Europe was a cornerstone in securing growth options going forward due to the global megatrend of urbanisation. With the entrance into the CSU market in Germany and Poland H+H is now in a better position to take advantage of this development.

Furthermore, the two acquisitions will make the distribution of group earnings more balanced across the geographical footprint so the H+H Group will be less vulnerable in case of country specific events.

Internal challenges on scale and critical mass also benefit from the acquisitions.

Organic growth

The building activity levels across H+H's geographical footprint are high except for Russia, meaning further organic volume growth will have to come from market share gains and potential productivity improvements in the customer base leading to higher demand for H+H's products.

Besides organic growth from volume, H+H will continue the efforts on commercial excellence to ensure to create value for the customers with products and services offering.

Opportunities for higher earnings

Besides earning improvements from organic growth, excellence programs in production and procurement efficiency will on an on-going basis contribute to increase H+H's margins.

In the UK, the completion of the Borough Green factory upgrade will contribute with operational improvements, e.g. more consistent output and less risk of downtime. Furthermore, a revised aggregate strategy has been put in place in the light of recent years development of this market.

For Germany and Poland where H+H has both AAC and CSU production there are additional synergies to be gained in regard to cross selling and economies of scale. Further, in Poland the new CSU production line in Gdansk will enhance the earnings potential.

For the Nordic region, a strong position in Sweden is desirable to achieve a better balance in the region. As no growth is foreseen in the Swedish building market. H+H does not foresee an immediate breakthrough but will strive to keep the position as an alternative to wooden houses and an attractive wall building materials provider.

Unique opportunity to participate in market restructuring
Potential M&A activities in Central Europe could improve earnings further. The new H+H platform is a solid platform for adding targeted bolt-on acquisitions.

H+H is in a unique situation as the turnover is below the threshold for anti-trust regulation and at the same time the balance sheet is healthy and H+H has a proven track record in integration and restructuring from recent years acquisitions.

FOCUS REGARDING M&A ACTIVITIES

The market situation and acquisition opportunities in the different regions of Germany differs. H+H has identified a number of potential acquisition targets and has an ongoing dialogue with some of these. However, the ability to complete future acquisitions and timing of these will naturally depend on the market development and other factors outside the control of H+H.

Managing the risks

For any kind of business, structural risks exist besides the risks deliberately taken on due to strategic decisions on the positioning of the Company, exposure against certain events etc.

To understand the business drivers the main characteristics to observe are:

- The business is cyclical and depends on sound macroeconomic developments.
- Penetrated markets for AAC and CSU make up a limited part of the world.
- AAC and CSU wall building products are mainly used in and therefore exposed to the market for new residential buildings.
- Historically there has been a slow penetration of new products and applications within the housebuilding industry.
- A high degree of substitutability of AAC and CSU products with e.g. wall building products of wood, clay and other concrete products.
- High entrance barriers exist to wall building production as it is a capital-intensive industry.
- Low productivity growth in construction may drive new technology that can disrupt the market for AAC and CSU.

Historically, the geographical exposure has secured some hedging of the cycles as the macroeconomic development is not fully correlated within the different geographical regions and building traditions differs across the geographical markets.

See further details on H+H’s risk exposure on page 38.

Continuous improvements

H+H has for a number of years been running various excellence programs and gained great benefits. The rationales and thinking behind these programs are now fully incorporated in the business and will continue to be vital. The commercial excellence program will support continuous organic growth and the lean approach in manufacturing, procurement utilising the larger scale of H+H’s business, and targeted profit improvement investments will mitigate inflationary pressure to the extent possible.

With the changes to the size and complexity of the business, a number of new areas have been reassessed and HR, IT, Customer Service and Logistics are areas that H+H will particularly focus on in the future.

HR

The increased complexity of the H+H Group, including the integration of acquired businesses calls for further focus on HR (Human Resources). It has been decided to invest in HR related initiatives, including strengthening the HR organization, with the purpose to develop a professional, international HR function.

The objectives are to ensure that H+H has the ability to attract, recruit, retain and further develop the best candidates, anticipating the turnover of the staff through workforce planning and managing succession proactively and efficiently.

Furthermore, it is the responsibility of the HR function to ensure the right diversity throughout the organization and responsible behavior as an employer. The starting point for the development of this new HR venture is as per below:

Measure	2018	2017	2016
FTEs	1,651	1,062	1,041
Temp. workers ratio	2%	2%	2%
Gender diversity	15%	16%	16%
Leavers	228	142	137
Employee turnover ratio	14%	13%	13%

The measures are impacted by the acquisitions that have increased the number of FTEs with more than 50%.

The employee turnover ratio is impacted by restructuring in the acquired companies.

The gender diversity of 15% is measured as the percentage of women in the total full-time workforce. The majority of the H+H workforce is blue collar working in the factories where there are very low numbers of women, however in sales and administration the diversity is more equal. For a more balanced composition on gender diversity a larger proportion of women are needed in the blue-collar positions.

To help strengthen the diversity of H+H's work force, a diversity policy for the group will be implemented in 2019 to promote diversity in respect of not only gender, but also in respect of nationality, age, skills, experience etc. The diversity policy will be published on the Company's website.

IT

Customers are focusing on digitalization and new technologies are constantly arising. With larger complexity H+H must ensure simple solutions are offered to the customers and used throughout the value chain.

BIM (Building Information Modelling) has been on the agenda for a number of years, but H+H has not yet seen a major breakthrough. H+H will continue to observe the development and aim to support customers' requirements as they arise.

As new generations come into the labour force changes are bound to happen. Currently, H+H has not decided on specific technologies or applications but knows that being agile and in partnership with the customers and getting their input as to their needs are key to make sure that the right choices are made at the right time.

Cyber security is an increasing issue both to protect data and to ensure uninterrupted business processes as communication and integration with customers and other external stakeholders are increasing.

Customer service and logistics

The maturity level and the expectations of the customers vary from market to market. H+H wants customers to experience added value throughout the building process. A lot of this is by nature services, process knowledge and a matter of customer preferences.

Besides the customer orientation, tangible processes as logistic are key, especially in times with increased pressure on reducing construction time and shortage of supply.

By combining the right set of skills, the right IT solutions and the right partners, the logistic solution is a differentiator in the market place.

As H+H has grown, the network of logistic partners has increased as well. It is H+H's objective that customers will continue to experience top class solutions being delivered at the right place and time, and H+H can utilize its size to benefit from a more efficient setup.

A powerful platform for continuing the strong development

Financial highlights

Performance in 2018

- Revenue in local currencies, excluding the acquired businesses (organic growth), increased by 18%, exceeding outlook of 15%. Revenue, including the acquired businesses, increased by 56% to DKK 2,523 million.
- EBITDA of DKK 410 million before special items, at upper end of outlook DKK 390 to 410 million. The increase in EBITDA has come from both organic growth and from acquired businesses.
- Capital expenditure of DKK 138 million were made during 2018, on par with outlook of DKK 135 million.
- Further investments related to the acquired companies HDKS and Grupa Silikaty amounted to DKK 839 million.
- EBIT margin before special items of 9% against a long-term target of at least 11%.
- ROIC was 10% against a long-term target of at least 12%. The reduction comes from one-off effects from the acquisition, integration of acquired companies and impairment of fixed assets in Russia.
- Net interest-bearing debt on 31 December 2018 of DKK 525 million. The net interest-bearing debt to EBITDA ratio is 1.5 compared to 2.2 in 2017.
- Cash flow from operating activities of DKK 370 million (2017: DKK 83 million) and cash flow from investing activities of DKK (973) million (2017: DKK (144) million). Free cash flow DKK (603) million (2017: DKK (61) million). Free cash flow excluding acquisitions and divestments was DKK 236 million.
- Equity on 31 December 2018 of DKK 1,000 million, up DKK 623 million on 31 December 2017, mainly due to net proceeds from a capital increase and profit for the year.
- A rights issue for the existing shareholders was completed in June 2018. The company received a gross proceed of DKK 525 million from the offering. Net proceeds from the offering was DKK 504 million.
- In March 2019, an agreement was entered with Nordea Danmark, branch of Nordea Abp, Finland supporting the company's strategic plan financially, which will replace the existing agreement with Danske Bank A/S.

Cash flow from operations was strong, the balance sheet is robust. Debt gearing is low and the solvency ratio is satisfactory. This has allowed us to secure financing that can support further market restructuring to create shareholder value.

Ian Lea Perkins, CFO

Financial review

Income statement

Revenue
Revenue in local currencies, excluding the acquired businesses (organic growth), increased by 18%. Revenue, including the acquired businesses, increased by 56% to DKK 2,523 million, against DKK 1,622 million in 2017.

The organic growth is predominantly volume driven, overall prices have increased but this just absorbs cost inflation. The main driver behind the organic growth is Poland and UK where demand is strong and operational improvements have been achieved.

Production costs
Production costs were well controlled throughout the year. Savings from operational excellence projects and purchasing initiatives were off-set by issues caused by reduced availability of good quality PFA in the UK and other inflationary pressures.

Gross profit
The gross margin was 26%, against 27% in 2017. Average selling prices were up on 2017, and increased capacity utilisation due to higher production volumes had a positive impact on margins. These positives were offset by additional transportation costs (reported as special items) from the sale of imported blocks from sister companies into the UK to support the Borough Green factory upgrade during the 'stand-still' period where the upgrade was carried out.

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%, on par with 2017.

Special items
Special items were negative of DKK 65 million, against negative DKK 30 million in 2017.

The majority of special items, DKK 37 million, derives from the additional transportation costs on the sale of imported products from sister companies to the UK as a result of the Borough Green factory upgrade. These costs are recognised as “Production costs” in the income statement.

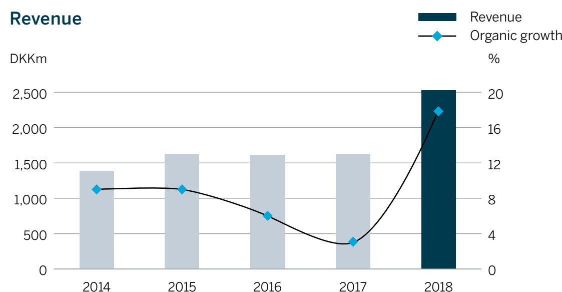
Costs of DKK 37 million were also incurred as a result of the acquisitions in both Poland and Germany, negative goodwill of DKK (12) million in connection to the acquisition of Grupa Silikaty and other costs of DKK 3 million.

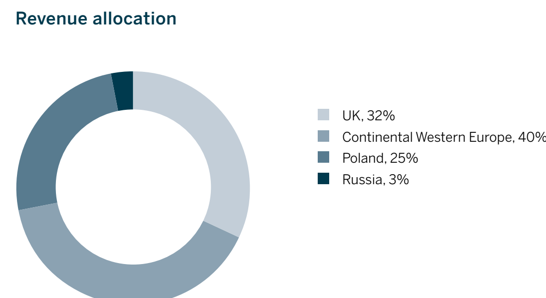
These costs are recognised as “Administrative costs” of DKK 18 million, “Other operating costs” of DKK 22 million and “Operating income” of DKK 12 million in the income statement.

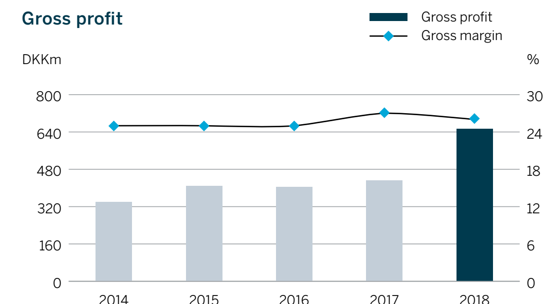
EBITDA
EBITDA came to DKK 345 million, against DKK 212 million in 2017, an improvement of DKK 133 million, equal to an increase of 63%.

EBITDA before special items was DKK 410 million, against DKK 242 million in 2017, an improvement of DKK 168 million, equal to an increase of 69%.

Financial results







The increase in EBITDA, both before and after before special items is a combination of improved earnings from organic growth and from the acquired businesses.

Operating profit (EBIT)
Operating profit was DKK 163 million (EBIT margin of 6%) against DKK 134 million in 2017 (EBIT margin of 8%), an increase of DKK 29 million.

Before special items, operating profit was DKK 228 million (EBIT margin of 9%) against DKK 165 million in 2017 (EBIT margin of 10%).

Operating profit adjusted for special items, impairment of fixed assets in Russia and "one-off" depreciations from the purchase price allocation was DKK 270 million (EBIT margin of 11%).

Purchase price allocation
The preliminary purchase price allocations for HDKS and Grupa Silikaty is reflected in the annual report for 2018. Depreciations has impacted the income statement by DKK 61 million whereas "one-offs", from depreciating the order book from the date of purchase and identified trademarks, amount to DKK 22 million.

For further details on the purchase price allocation please refer to note 25 "Business Combinations".

Return on invested capital (ROIC) (excl. goodwill)
Return on invested capital was 10%, compared with 16% in 2017. The reduction comes from, "one-off" depreciations from the purchase price allocation, the impact of special items resulting from the acquisition and integration of HDKS and Grupa Silikaty and impairment of fixed assets in Russia. Adjusted for these, return on invested capital would have been 17%.

Profit before tax from continuing operations
Profit before tax was DKK 125 million, against DKK 116 million in 2017, an improvement of DKK 9 million, equal to an increase of 8%.

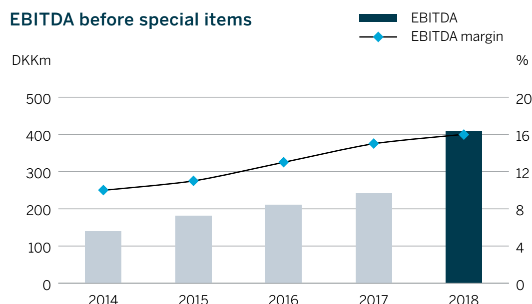
Net financials
Net financials totaled DKK 38 million in 2018, against DKK 18 million in 2017. The increase mostly come from increased interest-bearing debt as well as recognised past service cost related to the UK pension scheme. Net financials also include amortisation of borrowing costs, payments for an unused committed credit facility and other expenses for the pension scheme in the UK.

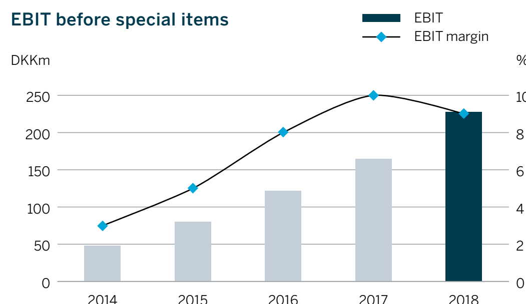
Taxation
Tax amount to DKK 0 million, against DKK 21 million in 2017. Current tax for 2018 has been offset by adjustment of deferred tax.

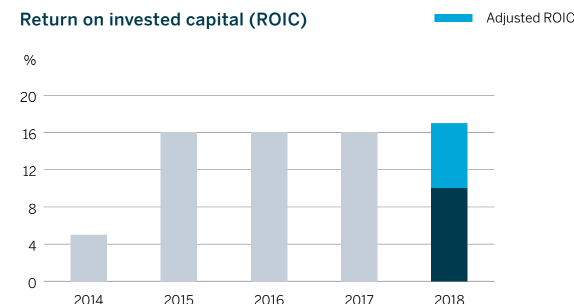
Discontinued operations
Discontinued operations were DKK 0 million, against a loss of DKK 5 million in 2017.

Other comprehensive income
Other comprehensive income amount to DKK 0 million, against a positive DKK 8 million in 2017. The main influence being the loss of DKK 22 million on movements in foreign exchange less deferred tax offset by a net gain on actuarial gains of DKK 22 million in relation to pension obligations. Further details can be found in the section "Statement of changes in equity".

Financial results







Western Europe

Revenue in Western Europe, excluding the acquired companies, increased by 12% in local currencies (organic growth). Revenue including the acquired business increased by DKK 588 million to DKK 1,808 million, an increase of 48%.

Revenue in local currency was driven by the UK where the housing market remained buoyant despite concern over Brexit.

EBITDA before special items was DKK 268 million (2017: DKK 194 million), an increase of DKK 74 million.

Special items mainly relate to the extra transportation costs where product has been brought in from Poland and Russia and sold in the UK to support the stock build necessary for the Borough Green factory upgrade, but also due to the acquisition made in Germany.

EBIT was DKK 85 million (2017: DKK 120 million), a decrease of DKK 35 million. EBIT for 2018 is highly affected by depreciation in relation to the purchase price allocation, in total DKK 58 million, whereas DKK 20 million is "one-offs".

Eastern Europe

Revenue in Eastern Europe, excluding the acquired companies, increased by 37% in local currencies (organic growth). Revenue including the acquired business increased by DKK 313 million to DKK 715 million, an increase of 78%.

In Poland, both sales volumes and prices were significantly higher than in 2017. Strong market conditions led to price increases and good production utilization.

EBITDA before special items was DKK 150 million (2017: DKK 52 million), an increase of DKK 98 million.

Special items, a net income of DKK 2 million, consists of negative goodwill of DKK 12 offset by costs related to the Polish acquisition and cost of closed down factories.

EBIT was DKK 88 million (2017: DKK 19 million), an increase of DKK 69 million.

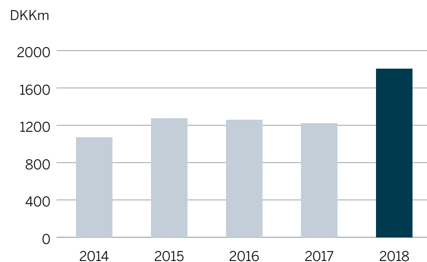
REVENUE, WESTERN EUROPE

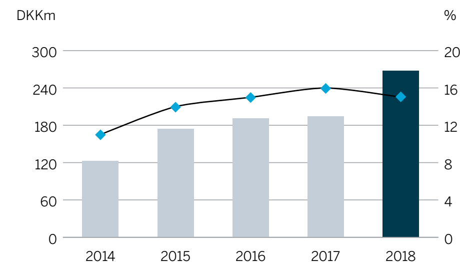
Up 48%

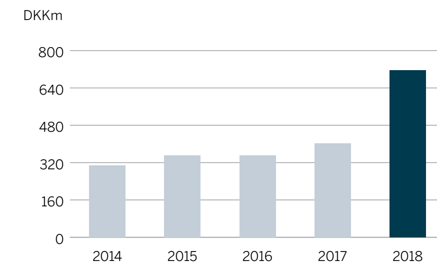
REVENUE, EASTERN EUROPE

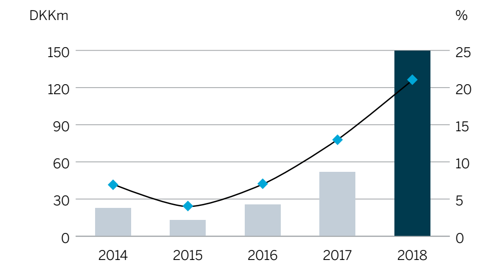
Up 78%

Financial results









Cash flow

Operating activities
Cash flow from operating activities was DKK 370 million, against DKK 83 million in 2017. The increase comes from both organic growth and from acquired business as well as stock reduction in the UK in connection to the Borough Green factory upgrade.

Investing activities
Net investments of DKK 973 million were made during 2018, against DKK 144 million in 2017. The increased investments come from acquired businesses.

Free cash flow
Free cash flow was negative of DKK 603 million, against negative DKK 61 million in 2017.

Financing activities
Financing activities increased by DKK 679 million, against an increase of 66 million in 2017. The increase primarily come from a rights issue where net proceeds of DKK 504 million was received.

Balance sheet

The balance sheet total at 31 December 2018 was DKK 2,421 million, against DKK 1,327 million at 31 December 2017.

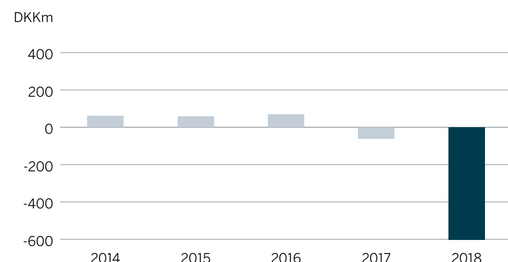
Financing
Net interest-bearing debt totaled DKK 525 million on 31 December 2018, up DKK 65 million on 31 December 2017. The net interest-bearing debt to EBITDA ratio was 1.5 compared to 2.2 in 2017.

Equity
H+H's equity increased by DKK 623 million in 2018. The increase is primarily driven by net proceeds from a capital increase of DKK 504 million. Furthermore, profit for the period increased equity by DKK 125 million, while foreign exchange adjustments of investments in subsidiaries less deferred tax decreased equity by DKK 22 million, largely driven by the RUB exchange rate. Adjustments to pension obligations net of deferred tax increased equity by DKK 22 million. Refer to note 19 "Pension obligations" for further analysis and sensitivity of the net pension obligations.

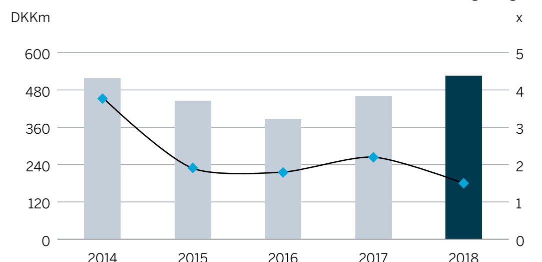
Other adjustments of negative DKK 6 million is from acquiring treasury shares and recognised costs for the matching share program. Refer to the notes 3 "Staff costs" and 18 "Share capital and treasury shares" for further information.

Financial results

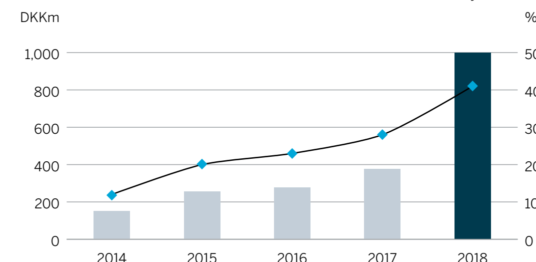
Free cash flow



Net interest-bearing debt



Equity



Management review for the parent company

Profit/loss for the year 2018 resulted in a loss of DKK 18 million (2017: profit of DKK 156 million).

Events after the balance sheet date

A committed credit facility has been agreed with Nordea Danmark, branch of Nordea Abp, Finland, which will replace the existing agreement with Danske Bank. Refer to note 28 "Events after the balance sheet date" for further information,

Comments relating to fourth quarter 2018

Revenue
Revenue in local currencies, excluding the acquired businesses (organic growth), increased by 30% in the fourth quarter. Revenue, including the acquired businesses, increased by 78% to DKK 660 million.

Gross profit
The gross margin in the fourth quarter was 27%, against 30% 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%.

The reduction in gross margin came from unplanned production stops, higher production costs and impact from the acquired businesses.

EBITDA
EBITDA before special items in the fourth quarter was DKK 110 million (2017: 61 million) and DKK 84 million after special items (2017: DKK 50 million).

The increase in EBITDA before special items was mainly due to improvements in the Eastern European segment and acquired businesses.

Operating profit (EBIT)
Operating profit for the fourth quarter was DKK 26 million against DKK 30 million in 2017, a decrease of DKK 4 million.

Operating profit before special items for the fourth quarter was DKK 43 million against DKK 41 million in 2017, an improvement of DKK 2 million.

Profit before tax from continuing operations
Profit before tax from continuing operations was DKK 4 million against DKK 24 million in 2017, a decrease of DKK 20 million.

Operating activities
Cash flow from operating activities was DKK 131 million against DKK 54 million in 2017, an increase of DKK 77 million. The increase was a result of working capital phasing primarily driven by trade debtors and trade payables.

Investing activities
Net investments of DKK 42 million were made during the fourth quarter which comprises of investments in tangible assets of DKK 54 million, offset by sale of tangible assets of DKK 4 million and adjustment to the purchase price of HDKS of DKK 8 million.
In the fourth quarter of 2017, net investments totaled DKK 72 million.

Cash flow
Fourth-quarter free cash flow was positive DKK 89 million, against negative DKK 18 million in the same period of 2017.

Western Europe
Revenue in the fourth quarter, excluding the acquired companies, increased by 27% in local currencies (organic growth). Revenue including the acquired business increased to DKK 473 million.

Fourth-quarter EBITDA was DKK 24 million, against DKK 16 million in 2017, an increase of DKK 8 million, mainly influenced by acquired businesses offset by special items.

Fourth-quarter EBITDA before special items was DKK 58 million, against DKK 28 million in 2017, an increase of DKK 30 million.

Fourth-quarter EBIT was a loss of DKK 10 million, against a profit of DKK 3 million in 2017, a decrease of DKK 13 million.

Eastern Europe
Revenue in the fourth quarter, excluding the acquired companies, increased by 42% in local currencies (organic growth). Revenue including the acquired business increased to DKK 187 million.

Fourth-quarter EBITDA was DKK 27 million, against DKK 8 million in 2017, an increase of DKK 19 million.

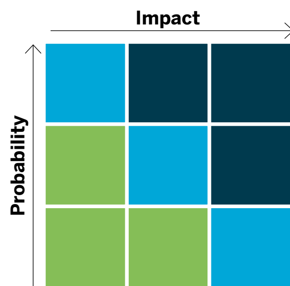
Fourth-quarter EBITDA before special items was DKK 31 million, against DKK 7 million in 2017, an increase of DKK 24 million.

Fourth-quarter EBIT was a loss of DKK 5 million, against a profit of DKK 1 million in 2017 a decrease of DKK 6 million.

Risk management

Risk management is an ongoing process at H+H, involving the identification of risks and an assessment of their likelihood as well as their potential impact on earnings, equity and H+H's reputation. We aim to mitigate identified risks through internal business procedures, insurance and/or follow-up. Procedures, guidelines and various control systems have been developed to monitor and mitigate the risks identified, ensuring optimal management of all key risks.

H+H use long-term scenarios as part of an annual evaluation of opportunities for and barriers to future growth, conducted during the strategy process. The scenarios are used to evaluate the impact of major decisions and the potential impact of major risks.



The Board of Directors has the ultimate responsibility for the Group's risk management process and establishes the overall framework for it, whereas the duty of monitoring and mitigating risks has been delegated to the Executive Board.

Risk management

Risk	Probability/impact 2017	Probability/impact 2018	Scenario	Action
Market			With significant fixed costs, demand has a noticeable effect on H+H's financial performance. Developments in the global economy and especially the construction sector, as well as political risks such as Brexit, initiatives such as taxes or tax deductions targeting the building industry or home owners, or changes to the mortgage system, have a significant direct and indirect impact on H+H.	Monitoring economic and political developments in the various markets and effective sales follow-up on a weekly basis.
Production			A major production breakdown or fire in a factory could cause a long-term loss of production. This shortfall would impact overhead recovery and could have an effect on sales unless made up by other H+H factories, which could lead to increased transportation costs.	Plans are in place to limit the time to fix production issues. Business interruption due to natural disasters/fire/explosions etc. is covered by insurance, which includes the additional cost of servicing the market from other sourcing options.
Raw materials & energy			Production is dependent on the supply of raw materials. Production costs are exposed to the effects of higher energy prices, cost of transportation and price changes for cement, sand, pulverised fuel ash (PFA) and lime.	All critical raw materials have dual sourcing, and substitution of suppliers can be implemented relatively easily (although at a cost). The cost raw materials is monitored closely.
Competition and pricing			H+H is one of the largest players in the European wall-building industry. Excess production capacity in some markets could result in a price war as well as some competitors desire to acquire market share using price as their selling point.	Competitor monitoring to the extent possible. Strong market visibility to maintain market position. Price monitoring in the various markets on a weekly basis with possible price adjustments.
Foreign exchange rates			H+H's earnings are in GBP, EUR and PLN, while its borrowings are primarily in DKK and EUR. Any developments in the financial markets, especially in GBP and PLN, could have a significant impact on H+H.	Exchange rate risks are mitigated under established policies and are subject to ongoing follow-up and reporting. H+H does hedge currency to reduce the exposure and tries to match assets and liabilities within each country when possible.
Capital structure & cash flow			Net interest-bearing debt amounted to DKK 525 million at the end of 2018 and H+H will remain dependent on external financing in the future to fulfill its growth strategy.	H+H has entered into a new banking agreement with Nordea. The should allow sufficient funding for both normal trading and to support its growth strategy. Covenants do exist within the agreement, but the company does not expect to breach these.
Integration of acquired companies			During 2018 H+H has made two acquisitions and has indicated that further acquisitions are likely. The integration of the acquired businesses are now mostly complete but the integration process stretches a lean organisation.	H+H will ensure a successful integration by employ and hiring sufficient resources to effectively manage the integration along with the existing day to day business.

Corporate Matters

Share capital and shareholders

H+H International A/S has a share capital with a nominal value of DKK 179,833,650 carrying a total of 17,983,365 votes and divided into 17,983,365 shares, each with a nominal value of DKK 10 and carrying one vote.

Shares and capital structure

As at 1 January 2019, H+H International A/S had 5,337 registered shareholders (corresponding to 84% of the share capital), including 199 foreign shareholders, and H+H held 107,979 treasury shares to cover part or all of its liabilities under the share-based incentive program.

The major shareholders in H+H are:

ATP, Denmark	13.0%
Handelsbanken Fonder AB, Sweden	7.2%
INKA Internationale Kapitalanlagegesellschaft mbH, Germany (controlled by HSBC Holdings PLC)	5.7%
Nordea Fund Management, subsidiary of Nordea Funds OY, Finland	5.4%

H+H International A/S's shares are listed on Nasdaq Copenhagen in the MidCap segment (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.

During 2018 a pre-emptive rights issue increased the number of shares and the share capital. For further details, please refer to note 18.

The Company's market cap increased from DKK 1.6 billion to DKK 1.7 billion including proceeds from the emission of DKK 0.5 billion. This corresponds to a decline in the underlying share price of around 24%. By way of comparison, the OMXC25 lost 13% and the OMXC Small Cap index lost 9%. Turnover in 2018 was 9 million shares at a total price of DKK 1,1 billion. Due to the Company's increased market cap, the Company has advanced from a Small Cap to a Mid Cap Company from 1 January 2019.

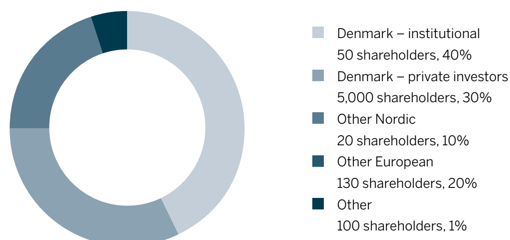
The Board of Directors and Executive Board regularly evaluate the Company's capital structure in light of the strategy and expected cash flow with a view to ensure an appropriate balance between adequate future financial flexibility to optimize the return to the shareholders.

For the time being, H+H expects to use the free cash flow to develop the existing business and pursue value-adding investments in the form of acquisitions, within the debt gearing indicated in the long-term financial targets. Surplus funds will be used for distribution to the shareholders by means of share buy-backs and dividends.

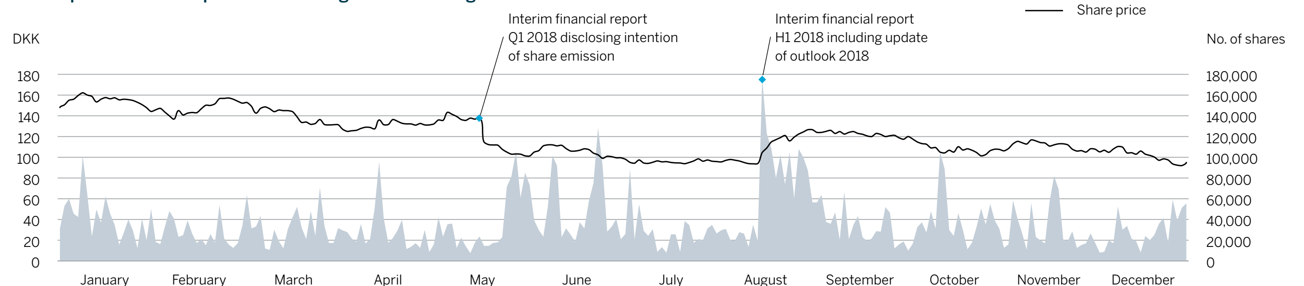
H+H International A/S had a solvency ratio of 41% at the end of 2018, compared with 28% at the end of 2017. The company's net interest-bearing debt totalled DKK 525 million at the end of 2018, compared with DKK 459 million at the end of 2017.

Share information

Distribution of shareholders



Development in share price and trading volume during 2018



Insiders
Members of H+H International A/S's Board of Directors and Executive Board are included in the Company's permanent 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 the publication of each interim financial report or annual report. If in possession of inside information, such persons are prohibited from trading even during the said four-week period for as long as this information remains inside information. The Company may not buy or sell its own shares during a three-week period immediately preceding each interim financial report or annual report, and the Company may not trade whilst in possession of inside information.

Annual general meeting

The next annual general meeting will be held on 11 April 2019. The time and place will be announced in the notice of the annual general meeting published via a company announcement and on the company's website. The notice will be published no earlier than five weeks and no later than three weeks prior to the annual general meeting.

Documents for use at the annual general meeting will be made available on the company's website, www.HplusH.com, no later than three weeks before the meeting. Shareholder proposals for the agenda of the annual general meeting must be submitted no

later than six weeks before the meeting (i.e. before 27 February 2019). Unless otherwise stated in the Danish Companies Act or the company's Articles of Association, resolutions on the amendment of the Articles of Association will be valid only if carried by at least two-thirds of the votes cast and of the voting share capital represented at the general meeting.

Dividends

Given the strategic opportunities for H+H, the Board of Directors will recommend to the annual general meeting on 11 April 2019 that no dividend be paid for the 2018 financial year.

It is still an overall objective for H+H International A/S to optimize the 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

The purpose of H+H International A/S's financial communications and other investor relations activities is to ensure that relevant, accurate and timely information is made available to the stock market to serve as a basis for regular trading and a fair pricing of the H+H share.

Relevant investor information is available on the company's website, www.hplush.com. The company is covered by Danske Bank Markets and ABG Sundal Collier. The company is not normally available for dialogue about financial matters in the three-week period leading up to the publication of an interim financial report or the annual report.

Enquiries concerning investor relations issues should be addressed to Vice President Bjarne Pedersen at shareholder@HplusH.com or by telephone on +45 35 27 02 00.

Financial calendar 2019

Date	Title
11 April 2019	Annual general meeting including adoption of the annual report for 2018
13 May 2019	Interim financial report Q1 2019
14 August 2019	Interim financial report H1 2019
13 November 2019	Interim financial report Q1-Q3 2019

Board of Directors

The Board of Directors held eight meetings in 2018, while the Audit Committee held five, the Nomination Committee held one and the Remuneration Committee two meetings.

Pursuant to the Articles of Association of H+H International A/S, the Board of Directors shall consist of four to eight members to be elected by the general meeting for a term that expires at the next annual general meeting.

The Board of Directors' remuneration consists of an annual fixed fee only. The members do not receive any type of incentive pay. The fee is determined for each financial year by the annual general meeting held that year.

The Board of Directors finds that in light of the group's current growth strategy, the main competences and experiences relevant inthe Board and in the Executive Board are: Strategy development and execution, commercial experience within H+H's core markets (i.e. currently the UK, Germany and Poland), international operational management experience, integration of acquired businesses, business development innovation, financing, IT management and risk management. Based on the Board's self-evaluation, which this year consisted of discussions in the full board as well as one-on one conversations between the chairman and board members, the Board concluded that all main competences and experiences found relevant are represented, except that e.g. the competences within shared services, risk frameworks and international talent development could be strengthened in light of the growth of the H+H group, including the integration of acquired businesses.

At the annual general meeting on 11 April 2019 Henriette Schütze will not seek re-election. Accordingly, the Board of Directors will propose re-election of Kent Arentoft, Stewart A Baseley, Volker Christmann, Pierre-Yves Jullien and Miguel Kohlmann and election of Helen MacPhee. Helen MacPhee (b. 1962) is British and works as VP Finance at Global Finance Services, AstraZeneca plc (UK). She has established and now manages the global finance services employing more than 1,200 persons in the AstraZeneca group with more than 65,000 employees in 120 countries, and in this role she is, among others, accountable for digital insight development and the adoption of robotics in all areas of global transactions finance. Helen MacPhee brings extensive strategic and operational experience in finance as well as international experience, in particular within change management, financial oversight and control, governance, risk frameworks and international talent development.

Concerning the evaluation of the Board's annual wheel and meeting schedule, the Board has decided to change its meeting structure to have five annual meetings (one meeting in relation to each of the four financial reports during the financial year and one strategy meeting) and with all five meetings being physical meetings, instead of having typically 7 annual scheduled board meetings with some being held as teleconferences. In addition to the scheduled meetings, there will often be a need for additional meetings in case of urgent matters relating to e.g. acquisitions or similar.

Corporate governance

The Corporate Governance recommendations applicable for 2018 are the recommendations as updated in November 2017 which can be found on the Committee's website: www.corporategovernance.dk.

In accordance with the recommendations, H+H International A/S has issued a Statutory annual corporate governance statement under section 107b of the Danish Financial Statements Act, which statement can be viewed on the company's website at www.HplusH.com/governance-statement.

Attendance rate to board meetings

Measure	2018	2017	2016
Kent Arentoft, Chairman	100%	100%	100%
Stewart Antony Baseley	100%	100%	87.5%
Volker Christmann	87.5%	88.9%	-
Pierre-Yves Jullien	100%	100%	100%
Miguel Kohlmann	100%	-	-
Henriette Schütze	87.5%	100%	100%
Average	**95.8%**	**97.8%**	**96.9%**

Attendance rate to audit committee meetings

Measure	2018	2017	2016
Henriette Schütze	100%	100%	100%
Pierre-Yves Jullien	100%	-	-
Average	**100%**	**100%**	**100%**

Attendance rate to remuneration committe meetings

Measure	2018	2017	2016
Kent Arentoft, Chairman	100%	100%	100%
Stewart Antony Baseley	100%	100%	100%
Volker Christmann	100%	-	-
Pierre-Yves Jullien	100%	100%	100%
Average	**100%**	**100%**	**100%**

Attendance rate to nomination committee meetings

Measure	2018	2017	2016
Kent Arentoft, Chairman	100%	100%	100%
Stewart Antony Baseley	100%	-	-
Pierre-Yves Jullien	100%	100%	100%
Average	**100%**	**100%**	**100%**

Attendance to the board meetings and board committee meetings is satisfactory and if board members cannot participate the board member will usually read the agenda and background material for the meeting and then submit comments and input to other board members prior to the meeting to ensure that all the board and committee members' questions and input are considered.

CSR

H+H has a group-wide Code of Conduct in place as well as various underlying group policies concerning competition law compliance, anti-corruption, health, safety & environment etc. In addition, an online whistleblower system enables H+H's employees, suppliers and customers to file reports on suspected non-compliance.

Pursuant to section 99a of the Danish Financial Statements Act, H+H International A/S publishes an annual statement on its CSR policies on corporate matters, actions taken to implement these policies and the results of these actions. The 2018 statement forms part of management's review and can be found on the company's website at www.HplusH.com/csr-statement-2018.

Gender distribution

H+H International A/S's employees, management and Board represent different skills, nationalities, ages, gender and international experience. Recruitment at all levels takes place with an emphasis on skills and experience, and without discrimination on the grounds of age, gender, nationality etc. If a male and female candidate for a position are equally qualified, the candidate who represents the gender that is under-represented will be chosen.

Pursuant to section 139a of the Danish Companies Act, H+H International A/S has set a target for the gender distribution of the Board of Directors, whereby the Board shall seek to ensure that each gender is represented

- (i) by at least one shareholder-elected member when the Board of Directors has four shareholder-elected members;
- (ii) by at least two shareholder-elected members when the Board of Directors has five to seven shareholder-elected members; and
- (iii) by at least three shareholder-elected members when the Board of Directors has eight shareholder-elected members.

The target was extended recently for an additional 4 years until the annual general meeting in 2023.

One new additional member was elected to the Board of Directors at the annual general meeting in 2018. The expansion of the Board was made with the aim of strengthening the Board's skills and experience within execution of international growth strategies in the building material industry, including experience with M&A and integration of acquired companies as well as transformation of the organization to be fit for a larger and more complex group. The Board proposed the most qualified candidate as new board member, and this candidate was male. Hence, by the end of 2018 the Board of Directors consisted of six shareholder-elected members out of which one is a female and five are male.

As for gender diversity at other management levels in H+H International A/S, there are no objectives or policy in place, since with only around 10 employees in total in the company, whereof only some are managers, there are only limited or no changes in the management levels in a given year, which again makes it very difficult to effectively pursue any gender objectives or gender policy within a meaningful time frame. Also, due to H+H International A/S's small organisation, the company is not obliged by law to have a gender policy, cf. section 139a(7) of the Companies Act.

Kent Arentoft, Chairman

Male. Born 1962. Danish.

Chairman of DSVM Invest A/S and subsidiaries (Denmark).

Joined the Board of Directors in 2013. Chairman since 2013. Member of the Nomination Committee (Chairman) and Remuneration Committee (Chairman).

Indirectly holds 25,000 H+H shares via a company he controls in 2018, with a change of 10,000 shares in the holding in 2018.

Independent as defined in the Danish Recommendations on Corporate Governance.

Broad organisation and management experience in international companies in the building materials and contracting sector, in particular within strategy development and M&A transactions.

Other management positions and directorships
Chairman of the Board of Directors of Cembrit Group A/S and subsidiaries (Denmark)
Member of the Board of Directors of Solix Group AB (Sweden).

Stewart Antony Baseley

Male. Born 1958. British.

Executive Chairman, Home Builders Federation (UK).

Joined the Board of Directors in 2010. Member of the Remuneration Committee and Nomination Committee.

Holds 19,000 H+H shares, with a change of 9,000 shares in his holding in 2018.

Independent as defined in the Danish Recommendations on Corporate Governance.

Experience in the international housebuilding industry and the developer industry, particularly in the UK, as well as international management experience.

Other management positions and directorships
Chairman of Troy Homes Limited (UK).
Chairman of Highlander-Partners (Poland).
Member of the Board of Directors of Fuerst Day Lawson Holdings Limited (UK), Sferra Fine Linens UK Limited (UK) and four subsidiaries of Home Builders Federation (UK).
Patron of Children with Special Needs Foundation (UK).

Volker Christmann

Male. Born 1957. German.

Managing Director, Senior Vice President Insulation Central Europe. Member of Group Management ROCKWOOL International.

Joined the Board of Directors in 2017. Member of the Remuneration Committee.

Holds no H+H shares, with no changes in his holding in 2018

Independent as defined in the Danish Recommendations on Corporate Governance.

Extensive experience within the building materials production sector of Central Europe, in particular Germany.

Other management positions and directorships
Chairman of the Board of Directors of two companies in the ROCKWOOL Group and managing director of five companies in the ROCKWOOL Group.
Chairman of the Board of Directors of the BuVEG (Bundesverband energieeffiziente Gebäudehülle) (Germany).
Member of the Board of Directors of the FIW (Forschungsinstitut für Wärmtechnik) (Germany).

Pierre-Yves Jullien

Male. Born 1950. French.

Professional board member.

Joined the Board of Directors in 2010. Member of the Nomination Committee and Audit Committee.

Holds no H+H shares, with no changes in his holding in 2018.

Independent as defined in the Danish Recommendations on Corporate Governance.

Experience in management of a major global production company, including turnarounds and efficiency improvement as well as B-t-B sales.

Other management positions and directorships
Member of the Board of Directors of Saudi Arabian Packaging Industry W.L.L. (Saudi Arabia and United Arab Emirates), Adviser to Al Suhaimi Holding Limited (Saudi Arabia),
Vice president of the Danish Chamber of Commerce (Denmark), Vice president of the Danish Chamber of Commerce (France) and member of the Danish Tunisian Chamber of Commerce (Denmark).

Miguel Kohlmann

Male. Born 1962. German & Brazilian.

Professional board member.

Joined the Board of Directors in 2018.

Holds no H+H shares, with no changes in his holding in 2018

Independent as defined in the Danish Recommendations on Corporate Governance.

Extensive management experience in building materials and industry on a global scale. Worked in controlling, sales, production and general management.

Other management positions and directorships
Chairman of the Board of Directors of SKF Motion Technologies AB (Sweden) and Logstor A/S (Denmark).
Member of the Board of Directors of Archroma Holdings SARL (Luxembourg) and Paul Bauder GmbH (Germany).
Advisory Director of Investcorp Securities Limited (UK). Senior Advisor to Pfleiderer Group SA (Poland)
Advising banks and private equity groups.

Henriette Schütze

Female. Born 1968. Danish.

Executive Director and CFO, Nordic Tankers Group A/S (Denmark).

Joined the Board of Directors in 2013. Member of the Audit Committee (Chairman).

Holds 885 H+H shares, with a change of 354 shares in her holding in 2018.

Independent as defined in the Danish Recommendations on Corporate Governance.

Extensive financial management experience from international listed and unlisted companies, particularly management, strategy development, turnarounds, change management and productivity/efficiency improvements.

Other management positions and directorships
CEO, CFO, Chairman or member of the Board of Directors of companies in the Nordic Tankers Group A/S (Denmark).
Member of the Board of Directors of Dania Ship Management Holding A/S and subsidiaries (Denmark), Inwido AB (Sweden) and the Royal Danish Theatre (Denmark).

Executive Board

Remuneration

The Executive Board's remuneration consists of a combination of:

- A fixed annual salary and pension contribution (if any).
- Performance-based one-year cash incentive scheme where the cash bonus earned depends on fulfilment of the set KPIs (i.e. financial KPIs + personal KPIs) financial or non-financial such as execution of certain projects (strategy activities, divestments, acquisitions etc.), and
- Performance-based three-year share based incentive scheme (currently a matching share program where the participant may invest privately held H+H shares in the program at a value of max. 15% of the participant's annual fixed salary, and the participant can then be granted up to a maximum of three H+H shares by the company (i.e. matching shares) for each privately held H+H share invested in the program – the extent of matching shares earned depends on fulfilment of the set financial KPIs).

In addition, some or all members of the Executive Board also receive work-related benefits in kind in accordance with normal market practices, including a company car or car allowance, free telephone, broadband at home, news subscriptions, certain insurances etc.

Michael Troensegaard Andersen
Male. Born 1961. Danish.

CEO since 2011

Holds 33,942 H+H shares, with a change of 11,475 shares in his holding in 2018.

Background

2004-2011: Trelleborg AB.

2008-2011: President of global business unit with 10 subsidiaries in Europe, USA and Asia.

2004-2008: Managing Director of Trelleborg Sealing Solutions Helsingør A/S.

1997-2004: Alto International A/S (now part of the Nilfisk Group). Executive positions within sales, marketing and general management.

Education

M.Sc. (Engineering) and a B.Comm.(Accounting)

Ian Lea Perkins
Male. Born 1965. British.

Executive Board since August 2016.

Holds 24,856 H+H shares, with a change of 14,013 shares in his holding in 2018.

Background

2009-2014: H+H UK Limited, Finance Director

2004-2009: Finance and IT Director of Marley Plumbing and Drainage Limited (part of the Aliaxis group).

Education

B.A. (Hons) Degree in Business, Chartered Management Accountant.

We focus on **adding value** to **our customers** throughout the entire **wall building process**

Financial Statements

Income statement

Note	(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
2	Revenue	2,523	1,622	0	0
3, 16	Production costs	(1,870)	(1,188)	0	0
	Gross profit	**653**	**434**	**0**	**0**
3	Sales and distribution costs	(147)	(102)	0	0
3	Administrative costs	(150)	(109)	(45)	(36)
4	Other operating costs	(29)	(15)	(1)	0
5	Other operating income	18	4	36	31
	Profit/loss before depreciation, amortisation and financial items (EBITDA)	**345**	**212**	**(10)**	**(5)**
6	Depreciation and amortisation	(162)	(78)	0	0
7	Impairment losses	(20)	0	0	186
	Operating profit/loss (EBIT)	**163**	**134**	**(10)**	**181**
8	Financial income	1	2	73	25
9	Financial expenses	(39)	(20)	(83)	(53)
	Profit/loss from continuing operations before tax	**125**	**116**	**(20)**	**153**
10	Tax on profit from continuing operations	0	(21)	2	3
	Profit/loss for the year from continuing operations	**125**	**95**	**(18)**	**156**
24	Loss for the year from discontinued operations	0	(5)	0	0
	Profit/loss for the year	**125**	**90**	**(18)**	**156**
12	Earnings per share (EPS-Basic) (DKK)	8.7	8.4		
12	Diluted earnings per share (EPS-D) (DKK)	8.7	8.4		
12	Earnings per share from continuing operations (EPS-Basic) (DKK)	8.7	9.0		
12	Diluted earnings per share from continuing operations (EPS-D) (DKK)	8.7	9.0		

Statement of comprehensive income

Note	(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
	Profit/loss for the year	**125**	**90**	**(18)**	**156**
	Other comprehensive income:				
	Items that will not be reclassified subsequently to the income statement:				
19	Actuarial losses and gains	26	1	0	0
	Tax on actuarial losses and gains	(4)	0	0	0
		22	**1**	**0**	**0**
	Items that may be reclassified subsequently to the income statement:				
	Foreign exchange adjustments, foreign companies	(22)	11	0	0
	Tax on foreign exchange adjustments, foreign companies	0	(4)	0	0
		(22)	**7**	**0**	**0**
	Other comprehensive income after tax	**0**	**8**	**0**	**0**
	Total comprehensive income for the year	**125**	**98**	**(18)**	**156**

Balance sheet at 31 December

Assets

Note	(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
	Goodwill	175	52	0	0
	Other intangible assets	239	5	0	0
13	**Intangible assets**	**414**	**57**	**0**	**0**
	Land and buildings	660	336	0	0
	Plant and machinery	688	314	0	0
	Fixtures and fittings, tools and equipment	32	84	0	0
	Property, plant and equipment under construction	44	110	0	0
13	**Property, plant and equipment**	**1,424**	**844**	**0**	**0**
14	Deferred tax assets	13	28	10	10
15	Equity investments in subsidiaries	0	0	1,247	964
15	Investments in associated companies	1	0	0	0
	Receivables from subsidiaries	0	0	738	217
	Other non-current assets	**14**	**28**	**1,995**	**1,191**
	Total non-current assets	**1,852**	**929**	**1,995**	**1,191**
16	Inventories	265	268	0	0
17	Trade receivables	134	74	0	0
	Tax receivable	4	0	0	0
	Group debtors	0	0	10	11
17	Other receivables	25	33	1	1
	Prepayments	8	10	1	0
	Cash	133	13	1	1
	Current assets	**569**	**398**	**13**	**13**
	Total assets	**2,421**	**1,327**	**2,008**	**1,204**

Equity and liabilities

Note	(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
18	Share capital	180	108	180	108
	Translation reserve	(243)	(221)	0	0
	Retained earnings	1,063	490	1,059	651
	Equity	**1,000**	**377**	**1,239**	**759**
19	Pension obligations	127	150	0	0
20	Provisions	17	14	20	18
14	Deferred tax liabilities	118	0	0	0
	Deferred payment, acquisition of subsidiary	24	0	0	0
	Lease liabilities	4	3	0	0
21	Credit institutions	303	469	260	355
	Non-current liabilities	**593**	**636**	**280**	**373**
21	Credit institutions	350	0	350	0
	Trade payables	291	217	5	4
	Lease liabilities	1	1	0	0
	Income tax	12	7	0	0
	Payables to subsidiaries	0	0	121	63
	Deferred payment, acquisition of subsidiary	24	0	0	0
20	Provisions	16	3	0	0
	Other payables	134	86	13	5
	Current liabilities	**828**	**314**	**489**	**72**
	Total liabilities	**1,421**	**950**	**769**	**445**
	Total equity and liabilities	**2,421**	**1,327**	**2,008**	**1,204**

Cash flow statement

Note	(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
	Operating profit/loss	163	134	(10)	181
8	Financial income, received	1	1	3	14
9	Financial items, paid	(37)	(20)	0	(10)
6, 7	Depreciation, amortisation and impairment losses	182	78	0	(186)
	Gain on disposal of property, plant and equipment	(1)	(1)	0	0
	Loss on disposal of property, plant and equipment	1	1	1	0
	Negative goodwill and other adjustments non-cash adj.	(14)	2	1	2
	Change in inventories	76	(81)	0	0
	Change in receivables	(1)	(18)	3	1
	Change in trade payables and other payables	50	24	10	(2)
	Change in provisions	(18)	(16)	0	0
	Joint taxation contribution received	0	0	0	2
	Income tax paid	(32)	(21)	(1)	0
	Operating activities	**370**	**83**	**7**	**2**
	Sale of property, plant and equipment	4	0	0	0
	Capital contributions to subsidiaries	0	0	0	(26)
	Change in borrowings to subsidiaries	0	0	(529)	(35)
	Dividend from subsidiaries	0	0	48	11
	Acquisition of enterprises and related deferred payments	(735)	(35)	(277)	0
13	Acquisition of land and property related to the acquired enterprises	(104)	0	0	0
13	Acquisition of property, plant and equipment and intangible assets	(138)	(109)	0	0
	Investing activities	**(973)**	**(144)**	**(758)**	**(50)**
	Free cash flow	**(603)**	**(61)**	**(751)**	**(48)**

Note	(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
	Net proceeds from capital increase	504	0	504	0
21	Change in borrowings	183	66	255	49
	Acquisition of treasury shares	(8)	0	(8)	0
	Financing activities	**679**	**66**	**751**	**49**
24	**Cash flow from discontinued operations**	**0**	**0**	**0**	**0**
	Cash flow for the year	**76**	**5**	**0**	**1**
	Cash and cash equivalents at 1 January	13	8	1	0
	Cash related to the acquired enterprises	45	0	0	0
	Foreign exchange adjustments of cash and cash equivalents	(1)	0	0	0
	Cash and cash equivalents at 31 December	**133**	**13**	**1**	**1**
	Cash and cash equivalents at 31 December, continuing operations	133	13		
	Cash and cash equivalents at 31 December, discontinued operations	0	0		
		133	**13**		

Statement of changes in equity

Group

(DKK million)	Share capital	Translation reserve	Retained earnings	Total
Equity at 1 January 2017	**108**	**(228)**	**397**	**277**
Profit/loss for the year	0	0	90	90
Other comprehensive income:				
Foreign exchange adjustments, subsidiaries	0	11	0	11
Actuarial gains/losses on pension plans	0	0	1	1
Tax on other comprehensive income	0	(4)	0	(4)
Net gains recognised directly in equity	**0**	**7**	**1**	**8**
Total comprehensive income	**0**	**7**	**91**	**98**
Acquisition of treasury shares	0	0	0	0
Share-based payment	0	0	2	2
Total changes in equity	**0**	**7**	**93**	**100**
Equity at 31 December 2017	**108**	**(221)**	**490**	**377**
Profit/loss for the year	0	0	125	125
Other comprehensive income:				
Foreign exchange adjustments, subsidiaries	0	(22)	0	(22)
Actuarial gains/losses on pension plans	0	0	26	26
Tax on other comprehensive income	0	0	(4)	(4)
Net gains recognised directly in equity	**0**	**(22)**	**22**	**0**
Total comprehensive income	**0**	**(22)**	**147**	**125**
Issue of ordinary shares (7,193,346 shares)	72	0	453	525
Expenses in connection with share issue	0	0	(21)	(21)
Acquisition of treasury shares	0	0	(8)	(8)
Share-based payment	0	0	2	2
Total changes in equity	**72**	**(22)**	**573**	**623**
Equity at 31 December 2018	**180**	**(243)**	**1,063**	**1,000**

Parent company

(DKK million)	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2017	**108**	**493**	**0**	**601**
Profit/loss for the year	0	156	0	156
Other comprehensive income	**0**	**0**	**0**	**0**
Total comprehensive income	**0**	**156**	**0**	**156**
Acquisition of treasury shares	0	0	0	0
Share-based payment	0	2	0	2
Total changes in equity	**0**	**158**	**0**	**158**
Equity at 31 December 2017	**108**	**651**	**0**	**759**
Profit/loss for the year	0	(18)	0	(18)
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**(18)**	**0**	**(18)**
Issue of ordinary shares (7,193,346 shares)	72	453	0	525
Expenses in connection with share issue	0	(21)	0	(21)
Acquisition of treasury shares	0	(8)	0	(8)
Share-based payment	0	2	0	2
Total changes in equity	**72**	**408**	**0**	**480**
Equity at 31 December 2018	**180**	**1,059**	**0**	**1,239**

Notes to the financial statements

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Notes – Financial statements

1 General accounting policies

The annual report for the period 1 January - 31 December 2018 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.

H+H International A/S is a public limited company registered in Denmark. The annual report of H+H International A/S for 2018 has been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed 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 2018 on 15 March 2019. The annual report for 2018 will be submitted to the shareholders of H+H International A/S for adoption at the annual general meeting on 11 April 2019.

Basis of preparation
The annual report is presented in DKK, which is the parent company's local currency, rounded to the nearest DKK 1 million. The annual report has been prepared using the historical cost principle. However, derivatives are measured at fair value, and non-current assets and disposal classified as held for sale are measured at the lower of their carrying amount before the reclassification and fair value less selling costs.

H+H has implemented IFRS 9 affecting the accounting policy for loss allowance. 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.

H+H has implemented IFRS 15 which introduces a five-step model to account for revenue arising from contracts with customers and the accounting policy for revenue recognition has consequently been changed. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Except for implementation of new or revised and amended accounting standards are the accounting policies consistent with those applied last year. The accounting policies have been applied consistently throughout the financial year and the comparative figures, if not mentioned otherwise.

The accounting policies applied to the consolidated financial statements as a whole are described below, while the remaining accounting policies are described in connection with the notes to which they relate. The aim is to give a better understanding of the individual items. The descriptions of accounting policies in the notes form part of the overall description of accounting policies.

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 re. below has not had a material impact on neither the consolidated financial statements or the separate financial statements for the parent company in 2018, and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs.

IFRS 9 'Financial Instruments'
With effective date 1 January 2018, IFRS 9 Financial instruments has changed the classification, measurement and impairment of financial assets, and introduced new rules for hedge accounting. H+H has adopted the new standard on the required effective date and has not restated comparative information. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

Based on the current portfolio of financial assets and liabilities there has been no significant changes to the classification and measurement of financial assets. The current portfolio consists of loans and trade receivables held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest.

IFRS 9 requires H+H to record expected credit losses on all its 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. Based on the historical low realized loss on loans and trade receivables, the new approach has not had a significant impact on H+H's consolidated financial statements.

IFRS 15 'Revenue from contracts with customers'
With effective date 1 January 2018, IFRS 15 has introduced a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. H+H sells aircrete products primarily through our builder's merchant network.

Some contracts with customers provide rebates and bonusses. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. H+H recognises revenue from the sale measured at the fair value of the consideration received or receivable, net of rebates and bonusses.

H+H has adopted the new standard on the required effective date and it has not had a significant impact on recognition and measurement of revenue.

The presentation and disclosure requirements in IFRS 15 are more detailed than under the previous standards, which are to increase the volume of disclosures required.

New IFRSs which have been issued but not yet become effective
In addition to the above, IASB has issued a number of new or amended standards (IFRSs) and interpretations (IFRIC), which have been endorsed by the EU but not come into effect 31 December 2018. H+H International A/S has assessed the impact of these IFRSs that are not yet effective. None of the new standards or interpretations are expected to have a material impact on H+H International A/S, execpt for IFRS 16 which is described below.

IFRS 16 'Leases'
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 will have 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 and cash flow and related ratios such as ROIC, NIBD and solvency. Leases for the H+H Group primarily comprise of forklift trucks, cars and rental of premises and land.

At the reporting date, H+H had non-cancellable operating lease commitments of DKK 203 million which mainly consists of forklifts trucks, wheel loaders and cars as well as leases of offices and land and buildings. Most of the current leases will qualify as leases to be recognised in the balance sheet under IFRS 16 and only insignificant commitments may be covered by exceptions. Incremental borrowing rates used varies for the respective assets, but sensitives show no significant impact of changes herein.

The assessment shows a positive impact of approximately DKK 22 million on EBITDA, DKK 4 million on EBIT and DKK 18 million on operating activities in cash flow for the period 1 January - 31 December 2019 and an expected increase of the balance sheet by approximately DKK 91 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.

Notes – Financial statements

1 General accounting policies – continued

H+H will adopt the standard on 1 January 2019 applying the simplified transition approach without restating comparative amounts for the year prior to first adoption.

All other new or amended standards and interpretations not yet effective are not expected to have a material impact on H+H's Annual Report.

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. Intra-group income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains arising from intra-group transactions are eliminated on consolidation.

Equity 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. Accounting items of subsidiaries are fully recognised in the consolidated financial statements.

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 on 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.

On recognition in the consolidated financial statements of foreign entities with a functional currency other than DKK, income statements are translated at the exchange rates at the transaction date and 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 income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date, are recognised as other comprehensive income.

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 as other comprehensive income. 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 as other comprehensive income.

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 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.

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 payment, 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 operating profit adjusted for depreciations, amortization and impairment losses, non-cash operating items, change in working capital, pension contributions, 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, purchase and sale of treasury shares, and payment of dividends as well as dividend received from subsidiaries.

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.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Notes – Financial statements

1 General accounting policies – continued

Financial ratios
Other financial ratios have been prepared in accordance with the Danish Finance Society's guidelines.

The financial ratios under Key figures have been calculated as follows:

Ratio	Numerator	Denominator
Gross margin	Gross profit x 100	Revenue
Operating margin	Operating profit/loss (EBIT) x 100	Revenue
Return on invested capital *	Operating profit/loss (EBIT)	Average invested capital
Earnings per share (EPS-Basic) **	Profit/loss for the year	Average number of shares outstanding
Diluted earnings per share (EPS-D) **	Diluted earnings	Diluted average number of shares outstanding
Return on equity	Profit/loss for the year x 100	Average equity excl. non-controlling interests
Solvency ratio	Equity at year-end (attributable to H+H) x 100	Total equity and liabilities, year end
Book value per share, year-end	Equity (in H+H), year-end	Number of shares, year-end
Price/book value	Share price	Book value per share, year-end
Price-earnings ratio (PE)	Share price	Earnings per share
Payout ratio	Total dividend paid x 100	Profit/loss for the year
Free cash flow	The sum of cash flow from operating and investing activities	
NIBD/EBITDA	Net interest-bearing debt, year-end	EBITDA

* Return on invested capital is measured on a twelve months basis. Invested capital is calculated as net working capital plus tangible assets and intangible assets excluding goodwill. Net working capital is defined as inventories, trade receivables, other receivables, prepayments deducted by trade payables and other payables.

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

Critical accounting estimates and judgements

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. 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.

Critical accounting estimates made in connection with the financial reporting are set out in the following notes:

- Impairment testing of intangible assets, note 13
- Impairment testing of property, plant and equipment, note 13
- Recovery of deferred tax assets, note 14
- Investments in subsidiaries, note 15
- Defined benefit pension plans, note 19
- Business combinations, note 25

Notes – Income statement

2 Segment information

(DKK million)	Group 2018			
	Western Europe	Eastern Europe	Dis-continued operations	Reporting segments
Revenue, external	1,808	715	0	2,523
Revenue, internal	161	18	0	179
EBITDA before special items	268	150	0	418
Operating profit (EBIT)	85	88	0	173
Invested capital	1,244	356	0	1,600
Other segment information				
Special items	65	(2)	0	63
Depreciation, amortisation and impairment losses	118	64	0	182
Non-current assets	1,401	441	0	1,842
Segment assets	1,789	620	0	2,409

2 Segment information – continued

(DKK million)	Group 2017			
	Western Europe	Eastern Europe	Dis-continued operations	Reporting segments
Revenue, external	1,220	402	0	1,622
Revenue, internal	125	35	0	160
EBITDA before special items	194	52	(3)	243
Operating profit (EBIT)	120	19	(3)	136
Invested capital	470	442	0	912
Other segment information				
Special items	26	3	0	29
Depreciation, amortisation and impairment losses	48	30	0	78
Non-current assets	490	450	0	940
Segment assets	834	542	1	1,377

Revenue in Denmark was DKK 174 million in 2018 (2017: DKK 164 million).

Non-current assets in Denmark at year-end 2018 amounted to DKK 13 million (2017: DKK 14 million).

Reconciliation

Amounts in DKK million	2018	2017
Operating profit for reportable segments	173	136
Unallocated group costs, corporate functions	(10)	(2)
Financial income	1	2
Financial expenses	(39)	(20)
Profit/loss before tax as per income statement	**125**	**116**
Total assets for reporting segments	2,409	1,377
Other non-allocated assets, eliminations and similar	12	(51)
Assets relating to discontinued operations	0	1
Assets as per balance sheet	**2,421**	**1,327**

Notes – Income statement

2 Segment information – continued

Key customers
One customer in the United Kingdom represented approx. 19% of the H+H Group's total revenue in 2018 (2017: approx. 26%). The following geographical areas in the Group represent more than 10% of revenue or non-current assets.

	Group			
(DKK million)	2018		2017	
	Revenue	Non-current assets	Revenue	Non-current assets
UK	807	207	705	202
Continental Western Europe	1,001	1,194	515	273
Poland	635	360	326	314
Other countries and eliminations	80	91	76	140
	2,523	**1,852**	**1,622**	**929**

When presenting information on geographical areas, information on revenue is based countries except for "Continental Western Europe" which comprise of Germany, Switzerland, Denmark, Sweden, Holland and Belgium. Revenue for Germany amounts to DKK 798 million (2017: DKK 262 million). All revenue relates to sales of goods and transport services.

Accounting policies

The reporting of operating segments is in accordance with the internal reporting to the Executive Management which constitute H+H's chief operating decision maker. Segment information is prepared in accordance with H+H's accounting policies and the internal financial reporting framework.

H+H have identified several operating segments which have been aggregated into one reporting segment. The operating segments all share similar economic characteristics, are similar in the nature of products, production processes and customer base as well as in distribution methods. Notwithstanding, H+H has chosen to disclose more segment information than required by IFRS 8, this to accommodate the investors of H+H.

Executive Management is responsible for decisions about overall resource allocation and performance assessment. Business decision on resource allocation and performance evaluation for each of the operating segments are made on basis of EBITDA before special items. Decision of financing and tax are made for H+H as a whole.

Segment income and expenses as well as segment assets 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 of items relating to H+H's administrative functions, investing activities etc.

3 Staff costs

	Group		Parent company	
(DKK million)	**2018**	**2017**	**2018**	**2017**
Wages and salaries	402	276	22	19
Defined contribution plans, see note 19	11	11	0	0
Share-based payment	3	2	3	2
Remuneration to the Board of Directors	2	2	2	2
Other staff costs	71	46	0	0
	489	**337**	**27**	**23**
Staff costs are recognised as follows:				
Production costs	302	202	0	0
Sales and distribution costs	106	76	0	0
Administrative costs	81	59	27	23
	489	**337**	**27**	**23**
Average full-time equivalent staff	**1,651**	**1,062**	**11**	**11**
Remuneration to the Executive Board:				
Michael Troensegaard Andersen (CEO):				
Salary	3.6	3.4	3.6	3.4
Bonus	1.7	1.0	1.7	1.0
Share-based payment	1.0	0.8	1.0	0.8
Pension	0.0	0.0	0.0	0.0
	6.3	**5.2**	**6.3**	**5.2**
Ian Lea Perkins (CFO):				
Salary	2.1	2.0	1.6	1.5
Bonus	1.0	0.7	1.0	0.7
Share-based payment	0.6	0.5	0.6	0.5
Pension	0.3	0.3	0.0	0.0
	4.0	**3.5**	**3.2**	**2.7**
Total	**10.3**	**8.7**	**9.5**	**7.9**
Remuneration to non-registered members of executive management:				
Salary	3.1	3.0	3.1	3.0
Bonus	1.4	0.8	1.4	0.8
Share-based payment	0.2	0.1	0.2	0.1
Pension	0.0	0.0	0.0	0.0
Total	**4.7**	**3.9**	**4.7**	**3.9**

Notes – Income statement

3 Staff costs – continued

Guidelines for remuneration to the Board of Directors and Executive Board
The annual general meeting has adopted the existing "Guidelines for remuneration to the Board of Directors and Executive Board, including general guidelines for incentive scheme for the Executive Board". All remuneration for 2018 has been determined in accordance with these guidelines. The Board of Directors does not receive any form of incentive payment and remuneration to the Executive Board consists of a combination of fixed annual salary and a performance-based element comprising a short-term and a long-term incentive plan.

The maximum amount of incentive remuneration (short-term and long-term) that can be achieved in accordance with the annual pool of incentive programmes, valued at the start of the vesting period for the annual pool, must not exceed 85% of the executive officer's fixed annual salary at the start of the vesting period, based on valuation pursuant to IFRS.

Board of Directors
The Board of Directors comprises six members. The annual general meeting on 19 April 2018 approved remuneration to the Chairman of the Board for 2018 of DKK 650,000 (2017: DKK 650,000) and remuneration to ordinary board members of DKK 325,000 (2017: DKK 325,000). Remuneration to members of the Board of Directors also covers committee work. The Board's committees currently comprise an Audit Committee, a Nomination Committee and a Remuneration Committee.

Executive Board
The two members of the Executive Board (i.e. the CEO and the CFO) may resign with six months' notice. The Company may dismiss a member of the Executive Board with 12 months' notice. Under normal circumstances, if the Company gives notice to the CEO without reason, the CEO is 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 in the Danish Securities Trading Act, or if the company's operations are transferred to a new owner, the period of notice the CEO must give the Company if the CEO wants to resign is shortened to three months for a period of two years from the time of takeover. In a corresponding takeover situation where the Company dismisses the CEO, the CEO will have a claim of twice the normal termination benefit, equivalent to 24 months' fixed salary.

Cash-based incentive schemes
Members of the Executive Board have the opportunity to earn an annual cash bonus. This is based on performance in relation to the achievement of defined financial ratios for the Company (key performance indicators such as EBIT, EBITDA, PBT, EPS, ROIC, increase in share price etc.) and/or defined individual performance criteria, economic or otherwise (execution of strategy, restructuring plans, R&D projects, lean projects etc.). The bonus is therefore not guaranteed. In the case of termination of employment, the member is entitled to a pro rata bonus up to the date of termination if the performance achieved by year-end means that a cash bonus has been earned.

3 Staff costs – continued

Share-based incentive scheme

Matching share programme
In August 2018, a matching share programme was launched for the Executive Board and certain key employees, however, due to complexities relating to the planned pre-emptive rights issue in June 2018, actual entry to the programme was postponed until the first open trading window after completion of the rights issue, i.e. August 2018. The Executive Board and key employees invested a total of 10,356 H+H shares into the matching share programme, which will trigger a maximum allocation of further 31,068 H+H shares in March 2021, if all the vesting criteria are fulfilled.

The vesting criteria relate to continuous employment in the H+H Group during the vesting period, the Group's operating profit and other financial targets. Similar matching share programmes were launched in previous years. Cost for the matching share programmes are recognised as staff costs until the expiry of the vesting periods. Cost are reversed for participants that voluntary leaves the matching share programme in which they took part.

The fair value of the programmes at inception are 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 share price on the first 10 days of the trading window when the programme is launched.

At vesting, grants can be settled with shares or by cash, based on the Company's decision.

Vesting period for the 2015 matching share programme was in March 2018 where 31,755 shares were granted.

As of 31 December 2018, the Company had the following open matching shares programmes:

	Max. factor of shares to be granted	Expected factor of shares to be granted	Max. value (DKK million)	Exp. value (DKK million)
2016-programme, vesting in March 2019	3.18	3.18	3.2	3.2
2017-programme, vesting in March 2020	3.18	3.18	3.9	3.9
2018-programme, vesting in March 2021	3.00	1.75	3.6	2.1

The programmes is partly hedged by purchase of treasury shares. In 2018, the Company has bought 75,000 shares between August and November. No shares were bought by the company in 2017.

Notes – Income statement

3 Staff costs – continued

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

	1 January 2018	Additions or sold/settled during the year	31 December 2018	Market value*
Board of Directors:				
Kent Arentoft (indirect ownership)	15,000	10,000	25,000	2,375
Stewart Antony Baseley	10,000	9,000	19,000	1,805
Volker Christmann	0	0	0	0
Pierre-Yves Jullien	0	0	0	0
Miguel Kohlmann	0	0	0	0
Henriette Schütze	531	354	885	84
	25,531	**19,354**	**44,885**	**4,264**
Executive Board:				
Michael Troensegaard Andersen	22,467	11,475	33,942	3,224
Ian Lea Perkins	10,843	14,013	24,856	2,361
Total	**58,841**	**44,842**	**103,683**	**9,849**

* Calculation of the market value is in DKK thousand and is based on the quoted share price of DKK 95.00 at 31 December 2018.

Accounting policies

The H+H Group's incentive schemes comprise a matching share programme for senior executives.

The value of services rendered by employees in return for share grants is measured at the fair value of the shares. For equity-settled shares, the grant date fair value is measured and recognised in the income statement as staff costs over the vesting period of the shares. The costs are set off directly against equity.

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

4 Other operating expenses

	Group		Parent company	
(DKK million)	**2018**	**2017**	**2018**	**2017**
Exiting Westbury land lease and other costs related to Westbury	3	2	0	0
Acquisition-and transaction related costs	21	10	1	0
Loss on disposal of property, plant and equipment	1	2	0	0
Other	4	1	0	0
Total	**29**	**15**	**1**	**0**

Acquisition-related costs comprise of transaction costs for acquisitions made in Poland and Germany.

Accounting policies

Other operating costs comprise items secondary to the entities' activities such as restructuring costs, losses on disposal of property, plant and equipment, and losses related to divestment of subsidiaries and activities and onerous contract.

5 Other operating income

	Group		Parent company	
(DKK million)	**2018**	**2017**	**2018**	**2017**
Management fee	0	0	36	31
Gain on disposal of property, plant and equipment	1	1	0	0
Rental income	1	2	0	0
Negative goodwill related to Grupa Silikaty	12	0	0	0
Other	4	1	0	0
Total	**18**	**4**	**36**	**31**

Refer to note 25 "Business combinations" for further information on negative goodwill related to Grupa Silikaty.

Accounting policies

Other operating income comprises items secondary to the entities' activities such as management fee, rental income, gains on disposal of property, plant and equipment, refund of energy tax and gains related to divestment of subsidiaries and activities.

Notes – Income statement

6 Depreciation and amortisation

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Other intangible assets	45	1	0	0
Land and buildings	26	17	0	0
Plant and machinery	83	48	0	0
Fixtures and fittings, tools and equipment	8	12	0	0
Total	**162**	**78**	**0**	**0**

7 Impairment losses

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Land and Buildings	11	0	0	0
Plant and Machinery	9	0	0	0
Write-down and reversals of equity investments	0	0	0	(186)
Total	**20**	**0**	**0**	**(186)**

An impairment of DKK 20 million related to the factory at Kikerino in Russia has been recognised in 2018. No impairment is recognised in 2017. Refer to note 13 for further information on assumptions applied in connection to the impairment testing.

8 Financial income

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Interest income	0	0	0	0
Interest income from subsidiaries	0	0	22	11
Exchange rate adjustments	0	0	3	3
Dividend from subsidiary	0	0	48	11
Fair value adjustment of foreign exchange hedges	0	1	0	0
Other financial income	1	1	0	0
Total	**1**	**2**	**73**	**25**

Accounting policies

Financial income comprises interest income, capital gains, transactions denominated in foreign currencies, amortisation of financial assets, and surcharges and allowances under the tax prepayment scheme etc.

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

9 Financial expenses

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Interest expenses	20	10	16	6
Interest expenses to subsidiaries	0	0	2	1
Interest on financial instruments	20	10	18	7
Other exchange rate adjustments	2	0	0	0
Write-down of intra-group debt	0	0	62	44
Financial expenses relating to pension plans; see note 19	3	4	0	0
Past service costs relating to pension plans; see note 19	6	0	0	0
Other financial expenses	8	6	3	2
Total	**39**	**20**	**83**	**53**

Accounting policies

Financial expenses comprise interest expenses, past service costs, capital losses, impairment losses relating to securities, payables and transactions in foreign currencies, and amortisation of financial liabilities, including finance lease obligations etc.

Notes – Income statement

10 Tax

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Tax on profit from continuing operations	0	21	(2)	(3)
Tax on other comprehensive income	4	(3)	0	0
Total	**4**	**18**	**(2)**	**(3)**
Total tax can be broken down as follows:				
Current tax for the year	36	19	(3)	(1)
Adjustment relating to changes in tax rate	1	0	0	0
Adjustment of deferred tax	(21)	5	0	(2)
Change in valuation of tax assets	(14)	(6)	0	0
Prior-year adjustments	2	0	1	0
Total	**4**	**18**	**(2)**	**(3)**
Current joint taxation contribution for the year	**0**	**0**	**(3)**	**(2)**
Tax on profit from continuing operations can be broken down as follows:				
Calculated 22.0% (2017: 22.0%) tax on income from ordinary activities	28	24	(11)	34
Less tax in foreign Group entities compared with 22.0% rate (2017: 22.0%)	(10)	(3)	0	0
Tax effect of:				
Change in valuation of tax assets	(37)	(3)	0	0
Change in tax rate	0	0	0	0
Other adjustments	7	0	(1)	(3)
Non-deductible expenses/non taxable income	12	3	0	(34)
Non-deductible losses/non taxable gains related to investments in subsidaries	0	0	10	0
Total	**0**	**21**	**(2)**	**(3)**

10 Tax – continued

Accounting policies

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 can be attributed to items in other comprehensive income or directly in equity is recognised in other comprehensive income or 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 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.

The parent company is the administration company for the jointly taxed Danish companies. Pursuant to the rules on this contained in the Danish Corporation Tax Act, all companies that are jointly taxed are thus liable to withhold tax at source on interest, royalties and dividends for the jointly taxed companies for contingent liabilities. The Group's Danish companies are further jointly and severally liable for joint registration of VAT.

Notes – Income statement

11 Income statement classified by function

It is Group policy to prepare the income statement based on an adapted classification of costs by function in order to show earnings before depreciation, amortisation and financial items (EBITDA). Depreciation, amortisation and impairment of property, plant and equipment and intangible assets are therefore classified by function and presented on separate lines.

The table below shows an extract of the income statement adapted to show depreciation, amortisation and impairment classified by function:

	Group		Parent company	
(DKK million)	**2018**	**2017**	**2018**	**2017**
Revenue	2,523	1,622	0	0
Production costs	(2,003)	(1,261)	0	0
Gross profit including depreciation and amortisation	**520**	**361**	**0**	**0**
Sales and distribution costs	(192)	(103)	0	0
Administrative costs	(154)	(113)	(45)	150
Other operating costs	(29)	(15)	(1)	0
Other operating income	18	4	36	31
Operating profit/loss (EBIT)	**163**	**134**	**(10)**	**181**
Depreciation, amortisation and impairment comprise:				
Amortisation of intangible assets	45	1	0	0
Write-down of property, plant and equipment	20	0	0	0
Depreciation of property, plant and equipment	117	77	0	0
Write-down of equity investments	0	0	0	(186)
Total	**182**	**78**	**0**	**(186)**
Depreciation, amortisation and impairment are allocated to:				
Production costs	133	73	0	0
Sales and distribution costs	45	1	0	0
Administrative costs	4	4	0	(186)
Total	**182**	**78**	**0**	**(186)**

11 Income statement classified by function – continued

The Company's revenue streams contain of contracts for sale of goods and related transport services. Change of control for contracts for goods are satisfied upon shipment whereby the performance obligation is met instantly. Revenue relating to transport services is recognised upon delivery of the goods to an agreed location whereby the performance obligation is met.

The transaction price is the amount to which H+H expects to be entitled in exchange for the transfer of goods and transport services. The transaction price for delivery of goods and transport services are an integrated part of the contracts and the standalone selling prices are directly observable. Accounting estimates are made for variable considerations which consist of customer rebates and bonusses. These are allocated to the transaction price based on "The most likely amount"-method.

Payment terms mainly comprise of 30 days end of month, hence no significant financing component. Defect products and return pallets can be redelivered and provisions has been recognised accordingly. For further description, please refer to note 20 "Provisions".

Accounting policies

Revenue from contracts for goods recognised in the income statement when the customer obtains control. Revenue relating to transport services is recognised upon delivery of the goods to an agreed location. Revenue is recognised 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 recognise production costs, relating to revenue for the year. This includes the direct and indirect cost of raw materials and consumables, and wages and salaries.

Sales and distribution costs include costs of distribution of goods sold during the year as well as marketing costs etc. This includes costs of sales personnel, and advertising and exhibition costs.

Administrative costs include costs incurred during the year for management and administration, including costs for administrative staff, office premises and office expenses. Administrative costs also include impairment of trade receivables.

Notes – Income statement

12 Earnings per share (EPS)

	Group	
	2018	**2017**
Average number of shares	14,495,085	10,790,019
Average number of treasury shares	(59,415)	(57,286)
Average number of outstanding shares	14,435,670	10,732,733
Dilution from share options	0	0
Average number of outstanding shares, diluted	**14,435,670**	**10,732,733**
Profit/loss for the year (DKK million)	125	90
Shareholders in H+H International A/S (DKK million)	**125**	**90**
Earnings per share (EPS) (DKK)	8.7	8.4
Diluted earnings per share (EPS-D) (DKK)	8.7	8.4

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

(DKK million)	**2018**	**2017**
Profit/loss from discontinued operations	0	(5)
Profit/loss from continuing operations	125	95
Profit/loss for the year	**125**	**90**

Notes – Balance sheet

13 Intangible assets and property, plant and equipment

	Parent company			
(DKK million)	**2018**		**2017**	
	Other intangible assets	**Fixtures and fittings, tools and equipment**	**Other intangible assets**	**Fixtures and fittings, tools and equipment**
Total cost at 1 January	6	0	7	0
Additions during the year	0	0	0	0
Disposals during the year	0	0	(1)	0
Total cost at 31 December	**6**	**0**	**6**	**0**
Total depreciation and amortisation at 1 January	(6)	0	(7)	0
Depreciation and amortisation of disposals	0	0	1	0
Depreciation and amortisation for the year	0	0	0	0
Total depreciation and amortisation at 31 December	**(6)**	**0**	**(6)**	**0**
Carrying amount at 31 December	**0**	**0**	**0**	**0**

Notes – Balance sheet

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

(DKK million)	2018					
	Goodwill	Other intangible assets	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under con-struction
Total cost at 1 January 2018	83	32	572	1,143	216	110
Adjustment to opening	0	0	89	(5)	(84)	0
Foreign currency translation adjustments	(1)	0	(11)	(18)	(6)	0
Additions from acquired companies	123	277	266	1,011	3	0
Transfers	0	0	2	81	0	(83)
Additions during the year	0	4	117	94	9	18
Disposals during the year	0	0	(1)	(83)	(1)	(1)
Total cost at 31 December 2018	**205**	**313**	**1,034**	**2,223**	**137**	**44**
Total depreciation and amortisation at 1 January 2018	(31)	(27)	(236)	(829)	(132)	0
Adjustment to opening	0	0	(26)	(8)	34	0
Foreign currency translation adjustments	1	(1)	4	4	2	0
Additions from acquired companies	0	(1)	(79)	(691)	0	0
Transfers	0	0	0	0	0	0
Depreciation and amortisation for the year	0	(45)	(26)	(83)	(8)	0
Depreciation and amortisation of disposals	0	0	0	81	(1)	0
Impairment losses for the year	0	0	(11)	(9)	0	0
Total depreciation, amortisation and impairment losses at 31 December 2018	**(30)**	**(74)**	**(374)**	**(1,535)**	**(105)**	**0**
Carrying amount at 31 December 2018	**175**	**239**	**660**	**688**	**32**	**44**

As at 31 December 2018, other intangible assets includes customer relations of carrying amount DKK 229 million.

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

(DKK million)	2017					
	Goodwill	Other intangible assets	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under con-struction
Total cost at 1 January 2017	79	26	549	1,156	219	66
Adjustment to opening	1	5	0	0	5	0
Foreign currency translation adjustments	3	0	9	(12)	(7)	(2)
Transfers	0	0	8	17	(1)	(30)
Additions during the year	0	1	6	18	8	76
Disposals during the year	0	0	0	(36)	(8)	0
Total cost at 31 December 2017	**83**	**32**	**572**	**1,143**	**216**	**110**
Total depreciation and amortisation at 1 January 2017	(28)	(22)	(218)	(827)	(125)	0
Adjustment to opening	(1)	(5)	0	0	(6)	0
Foreign currency translation adjustments	(2)	0	(1)	10	3	0
Transfers	0	0	0	0	0	0
Depreciation and amortisation for the year	0	0	(17)	(48)	(12)	0
Depreciation and amortisation of disposals	0	0	0	36	8	0
Impairment losses for the year	0	0	0	0	0	0
Total depreciation, amortisation and impairment losses at 31 December 2017	**(31)**	**(27)**	**(236)**	**(829)**	**(132)**	**0**
Carrying amount at 31 December 2017	**52**	**5**	**336**	**314**	**84**	**110**

Notes – Balance sheet

13 Intangible assets and property, plant and equipment – continued

Impairment testing

Management has tested goodwill for impairment in each of the cash-generating units to which such assets have been allocated. Furthermore, Management has tested non-current assets for Russia for impairment.

Management has identified the following six cash-generating units;;

	2018		
Cash-generating units and goodwill within the group	**Product**	**Year of origin**	**DKK million**
Poland	AAC	2003	24
Poland	CSU	2018	0
Continental Western Europe	AAC	2006	28
Continental Western Europe	CSU	2018	123
UK	AAC	N/A	0
Russia	AAC	N/A	0
Total			**175**

In 2018, goodwill of DKK 123 million has been acquired in connection to HDKS acquisition. Refer to note 25 "Business combinations" for further information on the purchase price allocation.

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

In both 2018 and 2017, the impairment test of goodwill showed no impairment.

The assumptions used for the impairment tests for non-current assets related to Russia are the same as those used in the impairment tests for goodwill. The impairment tests showed indications of impairment resulting in an impairment of DKK 20 million consequently has been booked.

13 Intangible assets and property, plant and equipment – continued

Key assumptions

For the purpose of impairment testing the recoverable amount was defined as the value in use. The impairment tests were based on budget for 2019 approved by the Board of Directors and strategy projections for the years 2020-2024 for all CGUs but Russia. The extension of the budget period for Russia is a result uncertain market conditions which makes it more difficult than normal to predict the future performance of this entity. Consequently, the budget and strategy projections for Russia has been extended to 2026 whereas normalised earnings are expected. The assumptions of the forecast period are based on benchmarked external data and historic trends.

	2018			
	Poland AAC	**Continental Western Europe AAC**	**Continental Western Europe CSU**	**Russia AAC**
Carrying amount of intangible assets and property, plant and equipment at 31 December 2018 (DKK million)	289	375	817	81
Goodwill	24	28	123	0
Estimated average annual growth in revenue 2019-2024 (CAGR) (Russia: 2019-2026)	0.3%	4.1%	3.7%	2.7%
Estimated average annual growth in gross margin in percentage points 2019-2024 (Russia: 2019-2026)	0.5%	0.3%	-0.3%	0.4%
WACC before tax	11.7%	9.2%	9.5%	18.3%
WACC after tax	9.5%	7.0%	7.0%	14.6%

	2017			
	Poland AAC	**Continental Western Europe AAC**	**UK AAC**	**Russia AAC**
Carrying amount of intangible assets, property, plant and equipment at 31 December 2017 (DKK million)	307	263	193	122
Goodwill	24	28	0	0
Estimated average annual growth in revenue 2018-2023 (CAGR) (Russia: 2018-2027)	2.3%	4.3%	6.3%	4.0%
Estimated average annual growth in gross margin in percentage points 2018-2023 (Russia: 2018-2027)	0.3%	0.6%	1.6%	0.7%
WACC before tax	11.6%	9.2%	9.4%	16.7%
WACC after tax	9.4%	6.7%	7.7%	13.3%

The weighted average growth rate used for the terminal period for the years after 2024 (Russia: 2026) has been estimated at 1.0% - 3.0% (2017: 1.0% - 3.0%). The weighted average annual growth rate for the terminal period are assessed not to exceed long-term average growth rates on the markets of the individual CGUs.

Notes – Balance sheet

13 Intangible assets and property, plant and equipment – continued

An increasing gross margin has been estimated for the period 2019-2024 (Russia: 2019-2026), after which it is expected to be constant. The rising gross margin assumes more expedient utilisation of production capacity as well as price increases.

The WACC is based on generally applied principles including the determination of return on equity and cost of debt. Components for the return on equity, the marked risk premium, company specific risk premium and beta-values, is benchmarked to information provided by an external valuation specialist. The risk-free rate for each CGUs has been sourced from trading economics and is equal a 10-years government bond. The cost of debt is estimated based on the actual margin in the bank agreements and the risk-free rate.

Sensitivity on changes in key assumptions
Group management believes that likely changes in the key assumptions will not cause the carrying amount of goodwill and non-current assets to exceed the recoverable amounts. The following sensitivity analysis of impairment tests focuses on changes in discount rate (WACC), long-term growth rate and Compound Average Growth Rate (CAGR). The changes in CAGR for 2019-2024 (Russia: 2019-2026) and beyond are based on the assumption that tax paid follows the decrease in gross margin. All other factors are unchanged in the sensitivity analysis.

Based on sensitivity analyses, it is Management's opinion that no probable change in any key assumptions would cause the carrying amounts of CGUs to exceed the recoverable amount as at 31 December 2018.

Accounting policies

Intangible assets
Goodwill is recognised initially in the balance sheet at cost. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised. 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 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 comprises of customer relations, order-book, trademarks, development projects and patent and licenses.

Customer relations, order book and trademarks acquired in connection with business combinations are measured at cost less cumulative amortisation and impairment losses. They are amortised using a straight-line method over the expected useful life.

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 as 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 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.

Property, plant and equipment
Land and buildings, plant and machinery, fixtures and fittings, and 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, subsuppliers 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 relates 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.

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:

- Production buildings 15-25 years
- Office buildings 30-50 years
- Production equipment, autoclaves, mills, cutting machines and moulds 10-30 years
- Plant, machinery and other equipment 5-20 years
- Vehicles, fixtures and IT equipment 3-10 years
- Software 3 years
- Other intangible assets 1-10 years
- Land is not depreciated

The main part of the Groups non-current assets comprises of production equipment, autoclaves, mills, cutting machines and moulds which are depreciated over a period of 10-30 years.

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.

Notes – Balance sheet

13 Intangible assets and property, plant and equipment – continued

Critical accounting estimates and judgements

Impairment of goodwill and non-current assets

Goodwill is tested for impairment annually, the first time before the end of the year of acquisition. 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.

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 and amortisation.

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.

The calculation for impairment testing 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.

14 Deferred tax

	Group		Parent company	
(DKK million)	**2018**	**2017**	**2018**	**2017**
Deferred tax at 1 January	28	27	10	8
Addition from acquisition	(167)	0	0	0
Foreign exchange adjustments	(1)	0	0	0
Change in deferred tax	21	(5)	0	0
Valuation of tax asset	14	6	2	2
Usage of joint taxation	0	0	(2)	0
Deferred tax at 31 December	**(105)**	**28**	**10**	**10**

	Group		Parent company	
(DKK million)	**2018**	**2017**	**2018**	**2017**
Deferred tax relates to:				
Non-current assets	(195)	(53)	0	0
Current assets	7	2	0	0
Liabilities	26	29	0	0
Tax loss carry-forwards	57	50	10	10
Total	**(105)**	**28**	**10**	**10**
Breakdown of deferred tax and recognition in the balance sheet:				
Deferred tax assets	13	28	10	10
Deferred tax liabilities	(118)	0	0	0
Total	**(105)**	**28**	**10**	**10**

No deferred tax has been recognised on the difference between the cost of equity investments and the carrying amount. 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, based on budget and forecasts, it is considered very likely that this can be utilised in future earnings and a history of profit before tax within the last three to five years has been verified. A tax value of loss carry-forwards of DKK 49 million at 31 December 2018 (2017: DKK 58 million) has not been recognised as deferred tax assets, as these are not considered likely to be utilised. The carry-forward losses mainly relate to Russia, Finland, Denmark and Sweden.

The parent company has special carried-forward losses related to sale of property and shares with limited possibilities of use with a taxable value of DKK 11 million which is not recognised.

Notes – Balance sheet

14 Deferred tax – continued

Accounting policies

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 amount and tax base of assets and liabilities. However, the following temporary differences are not recognised: Goodwill not deductible for tax purposes and other items – apart from business combinations – where temporary differences have arisen at the date of acquisition that affect neither profit nor taxable income. 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 intra-group 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 to the tax authorities for the subsidiaries' income taxes as the subsidiaries pay their joint taxation contributions. Joint taxation contributions payable and receivable are recognised in the balance sheet under receivables from/payables to subsidiaries.

Critical accounting estimates and judgements

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.

15 Investments in subsidiaries and financial assets

(DKK million)	Parent company 2018	2017
Acquisition cost at 1 January	1,294	1,270
Additions	283	26
Disposals	(160)	(2)
Cost at 31 December	**1,417**	**1,294**
Impairment losses at 1 January	(330)	(518)
Reversal of previous write-down	0	232
Impairment losses, equity investments	0	(46)
Reversal in connection with disposals	160	2
Impairment losses at 31 December	**(170)**	**(330)**
Carrying amount at 31 December	**1,247**	**964**

The cost of investments in subsidiaries was tested for impairment at the end of 2018. The recoverable amount of the equity investments at 31 December 2018 is based on the value in use, which has been determined using expected net cash flows based on estimates for the years 2019-2024 (Russia: 2019-2026) and a WACC after tax of 7.0%-14.6% (2017: 6.7-13.3%). The weighted average growth rate used for extrapolating expected future net cash flows for the years after 2024 has been estimated at 1.0%-3.0% (2017: 0.0%-1.0%). It is estimated that the growth rate will not exceed the long-term average growth rate in the respective company's markets; see note 13 for further information on the impairment tests.

Additions in above table comprise of the acquisition of Hunziker Kalksandstein AG of DKK 277 million and a capital injection for H+H Sverige AB of DKK 6 million. Disposals relate to the liquidation of H+H Finland Oy of DKK 153 million and sale of H+H Ukrania TOV of DKK 7 million. For 2017, additions comprise of debt conversion for H+H Finland Oy DKK 25 million and a capital injection for H+H Sverige AB of DKK 1 million.

Notes – Balance sheet

15 Investments in subsidiaries and financial assets – continued

	Registered office	2018 Equity interest, %	2017 Equity interest, %
KWAY Holding Limited*	UK	100	100
H+H Deutschland GmbH**	Germany	100	100
Hunziker Kalksandstein AG (acquired February 2018)	Switzerland	100	0
H+H Danmark A/S	Denmark	100	100
HHI A/S af 3. maj 2004	Denmark	100	100
H+H Finland Oy	Finland	0	100
Stone Kivitalot Oy	Finland	100	100
H+H Sverige AB	Sweden	100	100
H+H Polska Sp. z o.o.***	Poland	100	100
H+H EIQ s.r.o. (liquidated in January 2019)	Czech Rep.	100	100
H+H Ukraina TOV	Ukraine	0	100
H+H UA TOV	Ukraine	0	100
OOO H+H	Russia	100	100
H+H Benelux B.V.	Netherlands	100	100
Diverse af 29.9.2011 ApS	Denmark	100	100

* This activity comprises ownership of H+H UK Holding Limited and thus the activities of H+H UK Limited.

** This activity comprises ownership of H+H Kalksandstein GmbH (acquired February 2018)

*** This activity comprises ownership of Grupa Prefabet S.A., H+H Invest Sp. Z.o.o., H+H Finance Sp. Z o.o. and H+H Silikaty Sp. Z.o.o. (acquired April 2018)

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

H+H Finland Oy was liquidated in January 2018 and H+H Ukraina TOV and H+H UA TOV was sold in June 2018.

15 Investments in subsidiaries and financial assets – continued

Impairment of financial assets

Loans to related and other parties, lifetime expected credit losses (ECL) has been provided for them upon initial application of IFRS 9 until these financial assets are derecognised as it was determined on initial application of IFRS 9 that it would require undue cost and effort to determine whether their credit risk has increased significantly since initial recognition to the date of initial application of IFRS 9.

In determining the expected credit losses for these assets, we have taken into account the historical default experience, the financial position of the counterparties and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

Accounting policies

Equity investments in subsidiaries in the parent company's financial statements: Equity investments in subsidiaries are measured at cost. If there is any indication of impairment or reversal of prior year's impairment, an impairment test is carried out as described in note 13. Cost is written down to the recoverable amount whenever the carrying amount is higher.

Notes – Balance sheet

16 Inventories/production costs

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Raw materials and consumables	91	58	0	0
Finished goods and goods for resale	174	210	0	0
Total	**265**	**268**	**0**	**0**
Write-downs recognised in the inventories above have developed as follows:				
Write-downs at 1 January	15	10	0	0
Foreign exchange adjustments	0	0	0	0
Acquired	1	0	0	0
Write-downs for the year	3	14	0	0
Realised during the year	(1)	0	0	0
Reversals	(6)	(9)	0	0
Total	**12**	**15**	**0**	**0**
Production costs comprised:				
Wages and salaries	302	202	0	0
Production overheads	158	115	0	0
Consumptions of raw materials	1,413	866	0	0
Write-downs for the year	3	14	0	0
Reversals of inventory write-downs	(6)	(9)	0	0
Total	**1,870**	**1,188**	**0**	**0**

Accounting policies

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.

In the case of finished goods, 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.

17 Trade and other receivables

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Trade receivables	134	74	0	0
Group debtors	0	0	10	11
Other receivables	25	33	1	1
Total	**159**	**107**	**11**	**12**

Trade receivables are off-set by customer rebates and bonusses as well as write-downs.

In the parent company, group debtors comprise of receivable management fee.

Other receivables include a receivable from sale of land and property in Poland, rent deposits, VAT, other indirect taxes etc. and fall due within one year of the balance sheet date.

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Age analysis of trade receivables (gross):				
Not past due	126	77	0	0
0-30 days	37	20	0	0
30-90 days	5	1	0	0
90-180 days	1	2	0	0
Over 180 days	2	1	0	0
Total trade receivables	**171**	**101**	**0**	**0**
Write-downs relating to receivables, year-end	**3**	**6**	**0**	**0**

The average credit period on sales of goods is 30 days.

The expected credit losses on trade receivables are estimated using a provision matrix and the Group has recognised a loss allowance of 100% against all receivables over 180 days because historical experience has indicated that these receivables are generally not recoverable.

Receivables that are not past due are predominantly deemed to have a high credit quality and security is normally not required. 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 2018.

Notes – Balance sheet

17 Trade and other receivables – continued

Write-downs of receivables by geographical region

(DKK million)	Group 2018			Group 2017		
	Western Europe	**Eastern Europe**	**Total**	**Western Europe**	**Eastern Europe**	**Total**
Write-downs at 1 January	3	3	6	3	5	8
Foreign exchange adjustments	0	0	0	0	0	0
Additions from acquired companies	0	1	1	0	0	0
Write-downs for the year	1	0	1	0	0	0
Realised during the year	(2)	0	(2)	0	0	0
Reversals	(1)	(2)	(3)	0	(2)	(2)
Write-downs relating to receivables at 31 December	**1**	**2**	**3**	**3**	**3**	**6**

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Maturity period of trade receivables net of write-downs:				
0-30 days	37	18	0	0
30-90 days	5	0	0	0
90-180 days	0	0	0	0
Over 180 days	0	0	0	0
Total	**42**	**18**	**0**	**0**

Adopting IFRS 9 have not had a material impact on write-downs of trade receivables.

Accounting policies

Receivables are measured at amortised cost, which in all material respects corresponds to the nominal value less a loss allowance equal expected credit loss. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. Expected credit losses on receivables are recognised as other external expenses.

The expected credit losses on receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

18 Share capital and treasury shares

	Number 2018	Number 2017	Nominal value, DKKm 2018	Nominal value, DKKm 2017
Share capital at 1 January	10,790,019	10,790,019	108	108
Issue of ordinary shares	7,193,346	0	72	0
Share capital at 31 December – fully paid	**17,983,365**	**10,790,019**	**180**	**108**

At the extraordinary general meeting held on 4 November 2014, a resolution was passed to reduce the Company's share capital by a nominal amount of DKK 392,400,000 - from DKK 490,500,000 to DKK 98,100,000 at par - for allocation to a special fund in accordance with section 188(1)(3) of the Danish Companies Act.

At the same time as the capital reduction, the denomination of the shares was changed from nominal DKK 100 to nominal DKK 10. After the capital reduction, the share capital comprises 9,810,000 shares of nominal value DKK 10. All the shares have the same rights, with each share carrying 10 votes at the general meeting.

On 20 March 2015, H+H International A/S increased its share capital by a nominal amount of DKK 9,800,190 from DKK 98,100,000 to DKK 107,900,190. H+H International A/S's total nominal share capital is DKK 107,900,190 divided into 10,790,019 shares of nominal DKK 10 each, corresponding to 10,790,019 votes.

On 22 June 2018, H+H International A/S increased its share capital by a nominal amount of DKK 71,933,460 from DKK 107,900,190 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.

There have been no movements in the share capital in the last five years except for the above.

Notes – Balance sheet

18 Share capital and treasury shares – continued

Treasury shares

	Number	Nominal value, DKK '000	% of share capital, year-end
Holding at 1 January 2017	70,228	0.70	(0.4)
Purchased during the year	0	0.00	0.0
Granted due to matching share programme in 2014	(16,812)	(0.17)	0.1
Granted outside of the matching share programme	(242)	(0.02)	0.0
Capital reduction	0	0.00	0.0
Sold during the year	0	0.00	0.0
Holding at 31 December 2017	**53,174**	**0.51**	**(0.3)**
Purchased during the year	75,000	0.75	(0.4)
Granted due to matching share programme in 2015	(20,195)	(0.20)	0.1
Granted outside of the matching share programme	0	0.00	0.0
Capital reduction	0	0.00	0.0
Sold during the year	0	0.00	0.0
Holding at 31 December 2018	**107,979**	**1.06**	**(0.6)**

All the treasury shares are owned by H+H International A/S. Treasury shares are acquired in order to hedge liabilities related to the matching share programmes. Refer to note 3 for further information on the mathing share programmes.

Accounting policies

Equity: Proposed dividends are recognised as a liability at the date of adoption at the annual general meeting (declaration date).

Treasury shares: Acquisition costs, disposal costs and dividends relating to treasury shares are recognised directly in retained earnings under equity. Capital reductions as a result of 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.

19 Pension obligations

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

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

19 Pension obligations – continued

The 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 the 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 127 million (2017: DKK 150 million) has been recognised under liabilities in respect of the 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 11 million (2017: DKK 11 million) has been recognised in respect of expenses relating to insured plans (defined contribution plans). For non-insured plans (defined benefit plans), an amount of DKK 3 million (2017: DKK 4 million) has been recognised in the consolidated income statement as financial expenses.

The Group has defined benefit plans in the UK, Germany and Switzerland. The UK and Swiss pension plans are managed by a pension fund - legally separate from the Company - to which payments are made, whereas the German pension plans are unfunded. The board of the UK pension fund is composed of two representatives appointed by the employer, two elected by the pension fund members and two professional independent members.

The board of the UK pension fund is required by law and by articles of association to act in the interest of the pension fund members. The board of the UK pension fund is responsible for the investment policy with regard to the plan assets. Under the pension plan, employees are entitled to post-retirement annual payments amounting to 1/60 of the final pensionable salary for each year of service before the retirement age of 65. In addition, the service period is limited to 40 years, resulting in a maximum yearly entitlement (lifetime annuity) of 2/3 of the final pensionable salary.

The defined benefit pension fund in the UK typically exposes the Company to actuarial risks, such as investment, interest rate, inflation and longevity. H+H Celcon Pension Fund is supervised by an independent corporate trustee, H+H Celcon Pension Fund Trustee Limited. In accordance with the legislation governing pension funds, the corporate trustee must ensure among other things that a limited actuarial calculation of the pension obligations is carried out each year.

Every 3 years a triennial valuation take place. This valuation is based on more prudent assumptions than used under IAS 19. As of April 2017 it showed a deficit of DKK 165 million (GBP 20 million) which has led to a slightly increased repayment schedule. The repayment schedule runs March to April where H+H UK Limited will pay DKK 21 million (GBP 2.50 million) in 2018/19, DKK 24 million (GBP 2.85 million) in 2019/20, DKK 25 million (GBP 2.94 million) in 2020/21, DKK 26 million (GBP 3.02 million) in 2021/22, DKK 27 million (GBP 3.12 million) in 2022/23 and a final payment of DKK 27 million (GBP 3.21 million) in 2023/2024.

The UK pension fund was closed to new entrants in June 2007 and to the accrual of future service benefits in December 2011. The link to final salary ended at this point.

The most recent actuarial valuations (based on IAS 19R) of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2018 by Mr Oscar Brown, Fellow of the UK Institute of Actuaries, in Germany by AON and in Switzerland by Swiss Life. The present value of the defined benefit obligation, and the related service and past service cost, were measured using the projected unit credit method.

The UK pension fund has been replaced by a defined contribution pension scheme where the Company is not subject to any ongoing investment, interest rate or mortality risk.

Notes – Balance sheet

19 Pension obligations – continued

(DKK million)	Group 2018	Group 2017
Pensions and similar obligations:		
Present value of fully or partly funded defined benefit plans	674	698
Fair value of plan assets	558	559
Deficit	116	139
Present value of unfunded defined benefit plans recognised in the balance sheet	11	11
Net obligation recognised in the balance sheet	**127**	**150**
Development in present value of defined benefit obligation:		
Obligation at 1 January	709	723
Acquired obligations	46	0
Foreign exchange adjustments	(7)	(25)
Calculated interest on obligation	17	18
Past service costs	6	0
Service costs	2	0
Gains/losses as a result of changes in economic assumptions	(49)	21
Gains/losses as a result of changes in demographic assumptions	(5)	(9)
Empirical changes	3	6
Pension paid by employees	2	0
Pension paid	(39)	(25)
Obligation at 31 December	**685**	**709**
Breakdown of the present value of defined benefit obligation:		
Present value of fully or partly funded defined benefit obligations	674	698
Present value of unfunded defined benefit obligations	11	11
Obligation at 31 December	**685**	**709**

19 Pension obligations – continued

(DKK million)	Group 2018	Group 2017
Development in fair value of plan assets:		
Plan assets at 1 January	559	552
Acquired assets	32	0
Foreign exchange adjustments	(6)	(20)
Calculated interest income	14	14
Return on plan assets over and above the calculated interest	(26)	20
The Group's contributions to plan assets	22	18
The employee's contributions to plan assets	2	0
Pensions paid	(39)	(25)
Plan assets at 31 December	**558**	**559**
Pension costs relating to the current financial year, recognised as staff costs:		
Pension costs relating to defined contribution plans	11	11
Total pension costs	**11**	**11**
Financial costs relating to the defined benefit plans for the current year:		
Past service costs	(6)	0
Calculated interest on obligation	(17)	(18)
Calculated interest on plan assets	14	14
Net interest on defined benefit plans	**(9)**	**(4)**
Pension costs recognised in other comprehensive income:		
Gains/losses as a result of change in economic assumptions	50	(22)
Gains/losses as a result of change in demographic assumptions	5	9
Return on plan assets over and above the calculated interest	(26)	20
Changes due to empirical changes	(3)	(6)
Total	**26**	**1**

The cost has been recognised in the income statement under staff costs; see note 3. Costs recognised under production costs amount to DKK 7 million (2017: DKK 7 million), costs recognised under sales and distribution costs amount to DKK 2 million (2017: DKK 2 million) and costs recognised under administrative costs amount to DKK 2 million (2017: DKK 2 million).

Notes – Balance sheet

19 Pension obligations – continued

(DKK million)	Group 2018	Group 2017
Plan assets can be broken down as follows:		
Shares	0	0
Bonds	0	0
Diversified Growth Fund	237	235
Liability Driven Investment	148	175
Alternatives	173	148
Cash	0	1
Total	**558**	**559**

All plan assets in the UK, DKK 530 million, are investments held in LGIM funds, which in turn invest directly in highly rated assets that are traded on a stock exchange. Asset of another DKK 28 million relates to the Swiss pension plan.

(DKK million)	Group 2018	Group 2017
Return on plan assets		
Actual return on plan assets	(12)	34
Calculated interest on plan assets	14	14
Actuarial gain (loss) on plan assets	**(26)**	**20**
The average assumptions used for the actuarial calculation related to the UK pension at the balance sheet date can be stated as follows:		
Discount rate (avg.)	2.8%	2.4%
Expected inflation rate	3.4%	3.4%
Members' life expectancy from retirement age (years)	22.9	23.0

19 Pension obligations – continued

Sensitivity analysis

The table below shows the sensitivity of the UK pension obligation to changes in the key assumptions for determination of the obligation on the balance sheet date. The H+H Group is also exposed to developments in the market value of the plan assets. The key actuarial assumptions in determination of the pension obligation relate to interest rate level, pay increases and mortality.

The analysis is based on the reasonably likely changes which can be expected on the balance sheet date, provided that the other parameters in the calculations are unchanged and not subject to consequential changes:

(DKK million)	Group 2018	Group 2017
Sensitivity relative to discount rate:		
If the discount rate falls by 0.1 percentage point, the pension obligation will increase by	12	13
Sensitivity relative to inflation:		
If the inflation rate increases by 0.1 percentage point, the pension obligation will increase by	8	7
Sensitivity relative to life expectancy from retirement age:		
If the life expectancy from retirement age increases by 1 year, the pension obligation will increase by	33	34

The Group expects to pay DKK 25 million into the defined benefit pension plan in 2019 (2018: DKK 20 million).

(DKK million)	Group 2018	Group 2017
The pension obligation is expected to fall due as follows:		
0-1 year	39	25
1-5 years	155	101
Over 5 years	491	583
Total	**685**	**709**

Notes – Balance sheet

19 Pension obligations – continued

Actuarial assumptions
Discount rate
The discount rate is based on high-quality corporate bonds, and an adjustment has been made to reflect the fact that the duration of the bonds does not correspond to the duration of the pension obligation.

Price inflation
Inflation is based on market expectations for inflation over the duration of the pension liabilities and is calculated as a single equivalent rate.

Demographic assumptions are based on the latest available mortality projection model.

Accounting policies
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.

The pension costs for the year is recognised in the income statement based on actuarial estimates and the financial outlook at the start of the year. Past service costs are recognised in the income as a financial item. Differences between the expected development in plan assets and obligations and the realised values determined at year-end are designated as actuarial gains or losses and recognised in other comprehensive income.

Critical accounting estimates and judgements
Defined benefit pension plans: The present value of pension obligations depends on the actuarial assumptions made. These assumptions comprise the discount rate, inflation rate, 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.

20 Provisions

	Group	
(DKK million)	**2018**	**2017**
Provisions at 1 January	17	30
Foreign exchange adjustments	0	(1)
Additions from acquired companies	15	0
Provisions for the year	10	0
Utilised during the year	(1)	(7)
Reversals during the year	(8)	(5)
Provisions at 31 December	**33**	**17**
Breakdown of the provisions at 31 December:		
Warranty obligations	2	1
Obligations relating to restoration of sites	3	1
Onerous contracts	14	13
Close down costs related to Finland	2	1
Restructuring	4	0
Other provisions	8	1
Total	**33**	**17**

H+H'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 2018, warranty obligations relate predominantly to Germany and Poland.

The obligation in respect of restoration of sites relates to H+H's sites in Poland. The obligation has been calculated on the basis of external assessments of the restoration costs.

Provision for onerous contracts comprise of the onerous Westbury lease contract and an onerous lime contract in Poland.

The provisions are recognised based on expected maturities whereas for 2018 DKK 17 million (2017: DKK 14 million) is recognised as non-current liabilities and DKK 16 million (2017: DKK 3 million) as current liabilities.

In 2017, a provision of DKK 18 million was recognised in the parent company relating to the bank debt in H+H Finland Oy and Stone Kivitalot Oy, since H+H International A/S has an obligation to pay the debt if the subsidiaries cannot service their debt. The provision has increased to DKK 19 million in 2018.

Notes – Balance sheet

20 Provisions – continued

Accounting policies

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 the general interest rate level plus the specific risks attached 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 costs of meeting its obligations under the contract.

If 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.

21 Credit institutions

	Group		Parent company	
(DKK million)	**2018**	**2017**	**2018**	**2017**
Bank loans, non-current	304	470	261	356
Bank loans, current	350	0	350	0
Amortised borrowing costs	(1)	(1)	(1)	(1)
Total	**653**	**469**	**610**	**355**

Change in borrowings from financing activities:

	Group		Parent company	
(DKK million)	**2018**	**2017**	**2018**	**2017**
Borrowings 1 January	469	395	355	306
Cash flow, net	183	66	255	49
Cash flow discontinued operations, net	0	10	0	0
Foreign exchange adjustments	1	(2)	0	0
Borrowings 31 December	**653**	**469**	**610**	**355**

Maintenance of the committed credit facilities is conditional upon compliance with a number of financial covenants; see note 26.

Accounting policies

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 value 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.

Notes – Balance sheet

22 Contingent liabilities

(DKK million)	Group		Parent company	
	2018	2017	2018	2017
Operating leases	Lease payments	Lease payments	Lease payments	Lease payments
0-1 year	9	8	0	0
1-5 years	25	8	0	0
Over 5 years	2	0	0	0
Total	**36**	**16**	**0**	**0**

Lease payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Assets held under operating leases comprise cars and forklift trucks, primarily in the UK and Germany.

(DKK million)	Group		Parent company	
	2018	2017	2018	2017
Rental obligations	Lease payments	Lease payments	Lease payments	Lease payments
0-1 year	7	5	1	1
1-5 years	22	17	4	2
Over 5 years	138	173	3	0
Total	**167**	**195**	**8**	**3**

The H+H Group's key rental obligations consist of long-term land leases in UK and Poland.

An amount of DKK 15 million (2017: DKK 12 million) has been recognised in the consolidated income statement for 2018 in respect of operating leases and rental obligations.

Notes – Supplementary information

22 Contingent liabilities – continued

Taxes and duties
The parent company is the administration company for the jointly taxed Danish companies. Pursuant to the rules on this contained in the Danish Corporation Tax Act, the parent company is thus liable to withhold tax at source on interest, royalties and dividends for the jointly taxed companies for contingent liabilities, and to withhold corporation tax from 1 January 2013. The Group's Danish companies are further jointly and severally liable for joint registration of VAT.

Financial guarantee
The parent company H+H International A/S acts as guarantor for the subsidiaries' drawdowns on the Group's credit facility. The financial guarantee at 31 December 2018 amounts to DKK 43 million (2017: DKK 114 million).

Other
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.

Shares in some subsidiaries as well as some specific land and buildings have been pledged as security for a loan agreement with Danske Bank A/S.

The parent company has a contractual obligation of DKK 8 million regarding rental lease.

Notes – Supplementary information

23 Auditors remuneration

(DKK million)	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Total fees for the parent company's auditors elected at the annual general meeting:				
Deloitte	6.2	3.6	3.4	0.6
Total	**6.2**	**3.6**	**3.4**	**0.6**
The total fee can be broken down as follows:				
Statutory audit	2.7	1.6	0.5	0.5
Other assurance engagements	2.5	0.0	2.5	0.0
Tax and VAT services	0.3	0.1	0.0	0.0
Other services	0.7	1.9	0.4	0.1
Total	**6.2**	**3.6**	**3.4**	**0.6**

The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the Group amounts to DKK 2.8 million (2017: DKK 0.4 million) and consist of other assurance engagements related to the share issue, tax assistance and advisory, tax advisory services related to transfer pricing and sundry accounting advisory.

24 Discontinued operations and assets held for sale

Assets held for sale
H+H owns some land which is located close to residential areas or on areas that could be further developed. For 'Borough Green Gardens', no materially events have occurred in 2018.

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. 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.

Accounting policies

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".

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 where the activities and cash can be clearly separated from the rest of the business in operational and accounting terms, and 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. Discontinued operations also include entities classified as "held for sale" in connection with an acquisition.

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 operations 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.

Notes – Supplementary information

25 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

For HDKS, on 5 October 2018, the purchase price was final agreed reducing the purchase price from DKK 824 to DKK 816 million.

For Grupa Silikaty, the purchase price including a closing payment amount 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 income statement for 2018 transaction and integration costs of DKK 37 million has been recognised as "Administration costs" and "Other operating income and expenses" of which DKK 29 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.

For HDKS, the purchase price allocation shows acquired net assets at a fair value of DKK 693 million and related goodwill were consequently determined at DKK 123 million. Goodwill represents the value of the existing staff, access to new markets as well as the expected synergies from the acquisition.

For Grupa Silikaty, the purchase price allocation shows acquired net assets at a fair value of DKK 85 million and related goodwill were consequently determined at negative DKK 12 million. In accordance with IFRS 3, the negative goodwill has been recognised as income under "Other operating income and expenses".

The fair value of the acquired land and buildings is recognised on basis of external property valuations as well as depreciated replacement values.

25 Business combinations – continued

The fair value of the acquired plant and machinery 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 for both acquisitions.

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 for both acquisitions.

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 455 million and DKK 48 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 175 million and DKK 14 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 2,634 million and DKK 106 million, respectively.

On 28 December 2018, H+H International A/S and its subsidiary H+H Deutschland GmbH signed a Share and Purchase Agreement with Heidelberger KS Beteiligungen Deutschland GmbH & Co. HG to acquire 51% of the shares in Baustoffwerke Dresden GmbH & Co. KG. The closing of the transaction is subject to certain permits to be approval by the German authorities and is expected to occur in the middle of 2018. The purchase price will be paid at closing (approx. DKK 68 million).

Notes – Supplementary information

25 Business combinations – continued

The table provides a summary of the purchase price for Grupa Silikaty and HDKS and the allocation of the fair value of acquired assets and liabilities on the acquisition date.

(DKK million)	Grupa Silikaty 4 April 2018	HDKS 28 February 2018	In total
Customer relations	5	246	251
Order book	1	14	15
Trademarks	1	8	9
Land and buildings	43	240	283
Plant and machinery	18	313	331
Financial assets	5	0	5
Receivables	28	29	57
Inventories	10	66	76
Cash	22	28	50
Acquired assets	**133**	**944**	**1,077**
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	693	778
Goodwill in connection with the acquisition	(12)	123	111
Purchase price	**73**	**816**	**889**
Movements in cash flow in connection with the acquisition:			
Purchase price	73	816	889
Of which is cash acquired	(22)	(23)	(45)
Net cash flow in connection with the acquisitions	**51**	**793**	**844**

26 Financial instruments and financial risks

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

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

Currency risks
H+H'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, H+H has a translation risk, as a result of which H+H's profit/loss is exposed to fluctuations in the functional currencies. H+H 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. H+H has for 2018 entered foreign contracts for purchase of EUR paid in GBP.

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.

Interest rate risks
As a result of its investing and financing activities, H+H 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 H+H's policy to hedge interest rate risks on H+H'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.

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.

H+H 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.

Loan agreements
A committed credit facility of DKK 650 million and a committed term loan of DKK 350 million are facilitated by Danske Bank A/S subject to H+H's fulfilment of below mentioned financial covenants.

The Credit facility of DKK 650 million is running until April 2020 with an option of another two years.

A cash consideration for the acquisition of "HDKS" of DKK 817 million including a closing payment was made in 2018. The acquisition was financed utilizing the term loan facility of DKK 850 million. On 22 June 2018, the Company completed the rights issue with pre-emptive Rights for the existing shareholders, resulting in net proceeds 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.

Notes – Supplementary information

26 Financial instruments and financial risks – continued

The remaining part of the term loan facility DKK 350 million expires 2 April 2019.

H+H Group's financing is subject to the following financial covenants, which have been fulfilled in 2018 and which are expected to be fulfilled for 2019:

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

The loan agreements may be terminated by Danske Bank A/S in the event of breach of repayment obligations. Furthermore, the loan agreements may be terminated by Danske Bank A/S if the Company becomes subject to a delisting on NASDAQ Copenhagen or if any party other than Scandinavian Institutional Investor(s) acquires control of more than 50% of the issued share capital or the Company or more than 50% of the voting rights in the Company (whether by way of ownership, proxy, the articles of association of the Company, contract with other shareholders or otherwise - or a combination of them). Further, Danske Bank A/S may terminate the loan agreements if a sale, transfer or assignment of all or substantially all of the assets of the Company or the Group occurs or if any agreement providing for any such transaction.

Under the loan agreements, the Board of Directors has undertaken not to recommend annual dividend payments or any other form of distribution to the shareholders from the Company in any financial year if the Net Debt to EBITDA Ratio exceeds 3.0x or would exceed 3.0x upon distribution of the proposed dividend payment. Moreover, the Company is furthermore subject to restrictive undertakings in relation to the disposal of its assets without prior permission by Danske Bank A/S, including inter alia:

- An undertaking not to make any substantial change to the general nature of the Company's business
- An undertaking not to enter into any merger, demerger, reconstruction, or consolidation or joint venture agreements
- An undertaking not to sell, transfer or lease or otherwise dispose of any assets, shares in the Company or business activity
- An undertaking not to acquire any other company, or acquire or invest in shares, equity, a business or undertaking, without the prior consent of Danske Bank A/S
- An undertaking not to make any loan agreements or grant any credit agreements to or for the benefit of any person, or guarantee the obligation of such person
- An undertaking not to enter into any derivative transaction, other than in the ordinary course of business, and not for investment or speculative purposes.

The H+H Group has entered into a new banking agreement with Nordea Danmark, branch of Nordea Abp, Finland, as at 1 March 2019 comprising a committet facility supporting the Company's growth strategy. The agreement will replace the existing agreement with Danske Bank A/S. Refer to note 28 "Events after the balance sheet date" for further information.

26 Financial instruments and financial risks – continued

Credit risks

H+H is exposed to credit risks in the course of its activities. These risks are primarily related to receivables in respect of sales of H+H'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.

Parent company's monetary items and sensitivity

(DKK million)	2018				2017			
	Position	Sensitivity			Position	Sensitivity		
	Cash and receiv-ables	Potential volatility of exchange rate	Hypothetical impact on profit before tax for the year*	Hypo-thetical impact on equity	Cash and receiv-ables	Potential volatility of exchange rate	Hypothetical impact on profit before tax for the year*	Hypo-thetical impact on equity
EUR/DKK	884	1%	9	7	334	1%	3	3
GBP/DKK	(79)	5%	(4)	(3)	(53)	5%	(3)	(2)
			5	**4**			**0**	**1**

* 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.

Notes – Supplementary information

26 Financial instruments and financial risks – continued

Monetary items in foreign currency

Group

(DKK million)	2018						
	EUR	GBP	PLN	Others	Subtotal	DKK	Total
Trade receivables	21	44	26	15	106	28	134
Other receivables	4	0	19	1	24	1	25
Cash and cash equivalents	22	29	59	22	132	1	133
Trade payables	(51)	(145)	(72)	(10)	(278)	(13)	(291)
Other payables	(40)	(23)	(30)	(27)	(120)	(14)	(134)
Deferred payment	0	0	(48)	0	(48)	0	(48)
Credit institutions	(133)	0	0	(6)	(139)	(514)	(653)
Gross exposure	(177)	(95)	(46)	(5)	(323)	(511)	(834)
Hedged via derivative financial instruments	0	0	0	0	0	0	0
Net exposure	**(177)**	**(95)**	**(46)**	**(5)**	**(323)**	**(511)**	**(834)**

(DKK million)	2017						
	EUR	GBP	PLN	Others	Subtotal	DKK	Total
Trade receivables	7	36	6	7	56	18	74
Other receivables	5	0	25	1	31	2	33
Cash and cash equivalents	6	2	1	3	12	1	13
Trade payables	(26)	(124)	(44)	(10)	(204)	(13)	(217)
Other payables	(26)	(19)	(19)	(11)	(75)	(11)	(86)
Deferred payment	0	0	0	0	0	0	0
Credit institutions	(23)	(28)	(56)	(3)	(110)	(359)	(469)
Gross exposure	(57)	(133)	(87)	(13)	(290)	(362)	(652)
Hedged via derivative financial instruments	0	0	0	0	0	0	0
Net exposure	**(57)**	**(133)**	**(87)**	**(13)**	**(290)**	**(362)**	**(652)**

26 Financial instruments and financial risks – continued

Sensitivity of profit and equity to market fluctuations

Group

(DKK million)	2018		2017	
	Profit	Equity	Profit	Equity
5% increase in GBP/DKK	4	19	5	17
5% increase in PLN/DKK	4	21	1	13
	8	**40**	**6**	**30**

The table above shows the sensitivity of profit/loss and equity to market fluctuations. A decline in the GBP/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.

Interest rate exposure

Group

(DKK million)	2018				2017			
	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	513	0	513	0	358	0	358	0
EUR	112	0	112	0	18	0	18	0
PLN	(54)	0	(54)	0	57	0	57	0
CHF	(17)	0	(17)	0	0	0	0	0
RUB	(6)	0	(6)	0	(3)	0	(3)	0
GBP	(29)	0	(29)	0	26	0	26	0
Other	6	0	6	0	3	0	3	0
Total	**525**	**0**	**525**	**0**	**459**	**0**	**459**	**0**

The table above illustrates H+H's interest rate exposure on financial instruments at the balance sheet date. At 31 December 2018, the Group was not involved in any interest rate swaps.

All other things being equal, based on H+H's average net interest-bearing debt (expressed by quarter), an increase of 1 percentage point per year in the interest rate level relative to the average interest rate level in 2018 would reduce profit/loss before tax by DKK 7 million (2017: DKK 5 million).

The interest rate is variable, changing in accordance with the performance relative to the covenants contained in the loan agreement.

Notes – Supplementary information

26 Financial instruments and financial risks – continued

H+H's financial liabilities fall due as follows:

Group

(DKK million)	2018			
	Carrying amount	0-1 year	1-5 years	Over 5 years
Non-derivative financial instruments:				
Credit institutions and banks	653	352	309	0
Lease liability	5	1	4	0
Trade payables	291	291	0	0
Deferred payment	48	24	24	0
Other payables	134	134	0	0
Total	**1,131**	**802**	**337**	**0**

(DKK million)	2017			
	Carrying amount	0-1 year	1-5 years	Over 5 years
Non-derivative financial instruments:				
Credit institutions and banks	469	0	489	0
Lease liability	4	1	3	0
Trade payables	216	216	0	0
Deferred payment	0	0	0	0
Other payables	85	85	0	0
Total	**774**	**302**	**492**	**0**

Hedge accounting under IFRS 9
The fair value of those financial instruments that qualify for designation as hedge accounting under IFRS 9 is recognised directly in other comprehensive income until the hedged items are recognised in the income statement. No such financial instruments were used in 2018 or 2017.

Other derivatives that do not qualify for hedge accounting under IFRS 9
The fair value of those financial instruments that do not qualify for hedge accounting under IFRS 9 is recognised directly in the income statement. No contracts are entered as at 31 December 2018 (31 December 2017 DKK 0 million).

The fair value of derivative financial instruments to hedge future cash flows is based on observable data (level 2).

26 Financial instruments and financial risks – continued

Categories of financial instruments

Group

(DKK million)	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables	134	134	74	74
Other receivables	25	25	33	33
Cash and cash equivalents	133	133	13	13
Total receivables	**292**	**292**	**120**	**120**
Credit institutions and banks	653	654	469	470
Trade payables and other payables	425	428	303	303
Total financial liabilities measured at amortised cost	**1,078**	**1,082**	**772**	**773**

Classification and assumptions for the calculation of fair value
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 models 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 last year.

Notes – Supplementary information

27 Related parties

The Group's related parties are the Executive Board and the Board of Directors.

Apart from contracts of employment, no agreements or transactions have been entered into between the company and the Executive Board. Remuneration to the Board of Directors and the Executive Board is disclosed in note 3.

H+H International A/S has no controlling shareholders. Besides the parties specified above, the parent company's related parties consist of its subsidiaries; see note 15.

A management fee totaling DKK 36 million (2017: DKK 31.5 million) 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.

28 Events after the balance sheet date

On 1 March 2019, a new committed credit facility was agreed with Nordea Danmark, branch of Nordea Abp, Finland, subject to H+H's fulfilment of certain formal requirements concerning the execution of the loan agreement by all relevant H+H Group entities and renewal of certain security. The agreement has a duration of 3 years and has been secured on attractive market terms. The agreement will replace the existing agreement with Dansk Bank A/S.

After mutual agreement, H+H International A/S' current CFO and member of the Executive Board Ian L. Perkins will resign from his position no later than June 2019. Peter J. Jørgensen will be appointed as new CFO and member of the Executive Board no later than June 2019. For further information refer to company accouncement no. 370.

Other than the above, 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.

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 2018.

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 2018 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 2018.

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 2019

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

Independent auditors' report

To the shareholders of H+H International A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of H+H International A/S for the financial year 1 January to 31 December 2018, which comprise the 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. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2018, and of the results of their operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements* section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of H+H International A/S for the first time on 18 April 2012 for the financial year 2012. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 7 years up to and including the financial year 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Purchase price allocation of HDKS Refer to Note 25 "Business Combinations". On 28 February 2018, the H+H Group acquired the HeidelbergCement's German and Swiss calcium silicate unit business and certain land and properties ("HDKS") for a total purchase price of DKK 816 million. In accordance with International Financial Reporting Standards, all identifiable assets and liabilities acquired were recognised at fair value on acquisition. The allocation of the purchase price in a business combination to the net assets including intangible assets and property, plant and equipment acquired relies on assumptions and judgements made by Management. The main intangible assets identified by Management were customer relations, trademarks and order book. Management has performed fair value calculations which include key judgements in determining appropriate methodologies to value these assets and applying appropriate assumptions in Management's accounting estimates, including forecasting revenue and cash flows, determining discount rates and the useful lives for the assets. The main tangible assets were land and buildings and production equipment. Management has performed fair value calculations which include key judgements and assumptions in determining appropriate methodologies to value these assets assessing current market values for similar assets, replacement costs and other valuation assumptions.	We assessed and challenged Management's assumptions used in identifying and determining the fair value of the acquired net assets, including: • Inquired responsible employees about the judgements made and the process, including appropriateness of revaluation process. • Considered Management's process for identifying the net assets acquired, including intangible assets, considering the rationale for the acquisition and the nature of the HDKS business. • Obtained supporting documentation of Management's accounting estimates and key assumptions. • Consulted with subject matter experts regarding the valuation methodologies applied and Management's assumptions. • Challenged the future cash flow projections by discussing with Management and key employees. • Tested the mathematical accuracy of the calculations in the models. • Assessed the adequacy and appropriateness of disclosures in the notes and that they comply with the requirements of IFRS 3.

Key audit matter	How the matter was addressed in the audit
Impairment test on property, plant and equipment in H+H Russia Refer to Note 1 "General accounting policies" and Note 13 "Intangible assets and Property, plant and equipment" where Management's annual impairment test is described in detail. Property, plant and equipment in H+H Russia totals DKK 81 million as of 31 December 2018. An impairment loss of DKK 20 milion has been recognised in 2018 related to the factory at Kikerino in Russia. The Russian market with overcapacity and the uncertain market conditions makes it more difficult than normal to predict the future performance of the Russian entity and thereby increases the risk that Property, plant and equipment in H+H Russia could become subject to impairment losses. The impairment test prepared by Management involve significant judgement about future annual revenue, capacity costs, inflation and the discount rates applied.	We have assessed whether the method and assumptions accepted to calculate the value-in-use are appropriate. In this context, we have: • Evaluated the assumptions, methods and model applied for impairment testing, including consistency with prior years. • Obtained supporting documentation prepared by Management of significant assumptions applied for impairment testing, with focus on discount rate, expected developments in future annual revenue, growth, gross margins, capacity costs and inflation applied.. • Compared earnings expectations with the latest budget approved by the Board of Directors and earnings realised in the past. • Tested Management's sensitivity analyses. • Assessed the adequacy and appropriateness of disclosures in the notes and that they comply with the requirements of IAS 36. • Consulted with subject matter experts regarding the valuation methodology and Management's assumptions applied.

Statement on the management review

Management is responsible for the management review.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management review and, in doing so, consider whether the management review is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management review is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management review.

Management's responsibilities for the consolidated financial statements and the parent financial statements

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

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's and the Parent's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 15 March 2019

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