Company announcement No. 381, 2019
Interim financial report Q1-Q3 2019

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"The strong operational performance delivers significant margin improvements and strong financial results", says CEO Michael T. Andersen. "We see continued strong earnings for this year despite a slowdown in the German market. We are content with our strong financial position and will continue to focus on developing our core markets."

Highlights for the period 1 January to 30 September 2019

DKK million	**Q3 2019**	**Q3 2018**	**Q1-Q3 2019**	**Q1-Q3 2018**
Revenue	779	720	2,215	1,863
Organic growth	5%	21%	10%	15%
EBITDA before special items	182	143	435	300
EBIT before special items	137	103	306	185
EBIT margin before special items	18%	14%	14%	10%
NIBD/EBITDA ratio before special items	0.9	1.9	0.9	1.9
Special items	0	16	0	39
Free cash flow excluding acquisitions and divestments	136	131	175	156

Other highlights

- H+H International A/S has on 31 October 2019 closed the deal with LSR concerning divestment of its activities in Russia (100% of the shares in OOO H+H).

For further information please contact:
Michael T Andersen, CEO, or Bjarne Pedersen, CSO, on telephone +45 35 27 02 00.

Outlook for 2019
H+H updates its outlook for 2019:

- Growth before acquisitions and measured in local currencies is expected to be around 6% (previously around 8%).
- EBITDA before special items is expected to be DKK 525-545 million (previously DKK 510-550 million).
- EBIT before special items is expected to be DKK 345-365 million (previously DKK 330-370 million).
- Investments excluding acquisitions and divestments are expected to be in the region of DKK 140 million including investments for establishing a CSU production line near Gdansk, Poland and IFRS 16 effect (unchanged).

Investor teleconference
H+H International A/S will host an investor teleconference on 13 November 2019 at 16:30 CET.
To attend the conference call, please see details below.

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H+H's core activity is the manufacture and sale of wall building materials, with a revenue in 2018 of DKK 2.5 billion. The main product lines are aircrete blocks and calcium silicate units used for the residential new building segment. H+H has 28 factories in Northern and Central Europe with a total output of more than 4 million cubic metres of products annually and has a leading position in most of its markets. H+H has more than 1,600 employees and is listed on Nasdaq Copenhagen.

Key figures – H+H Group

Amounts in DKK million	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	Full-year 2018
Income statement					
Revenue	779	720	2,215	1,863	2,523
Gross profit	263	199	686	476	653
EBITDA before special items	182	143	435	300	410
EBITDA	182	127	435	261	345
EBIT before special items	137	103	306	185	228
EBIT	137	87	306	146	163
Profit/loss before tax	128	79	285	121	125
Profit/loss after tax	97	57	225	100	125
Balance sheet					
Assets	2,862	2,541	2,862	2,541	2,421
Average invested capital (measured on a twelve months basis)	1,743	1,397	1,743	1,397	1,582
Investments in property, plant and equipment	29	23	56	188	138
Investments in enterprises	0	0	82	744	839
Net working capital	45	66	45	66	11
Equity	1,258	978	1,258	978	1,000
Net Interest-bearing debt (NIBD)*	471	598	471	598	525
Cash flow					
Cash flow from operating activities	165	154	313	239	370
Cash flow from investing activities	(29)	(23)	(138)	(931)	(973)
Cash flow from financing activities	(99)	(109)	4	751	679
Free cash flow	136	131	175	(692)	(603)
Financial ratios					
Organic growth	5%	21%	10%	15%	18%
Gross margin	34%	28%	31%	26%	26%
EBITDA margin before special items	23%	20%	20%	16%	16%
EBITDA margin	23%	18%	20%	14%	14%
EBIT margin before special items	18%	14%	14%	10%	9%
EBIT margin	18%	12%	14%	8%	6%
Return on invested capital (ROIC)	19%	13%	19%	13%	10%
Solvency ratio	44%	38%	44%	38%	41%
NIBD/EBITDA before special items	0.9	1.7	0.9	1.7	1.3
NIBD/EBITDA ratio	0.9	1.9	0.9	1.9	1.5
Share data					
Share price, end of period (DKK)	103	117	103	117	95
Book value per share, end of period (DKK)	70	54	70	54	56
Earnings per share	5.4	3.2	12.5	5.6	8.7
Diluted earnings per share	5.4	3.2	12.5	5.6	8.7

* Net interest-bearing debt (NIBD) comprise of interest-bearing debt and lease liabilities offset by cash and cash equivalents. For 2019, NIBD includes effects from implementation of IFRS 16 regarding lease liabilities. Comparative figures have not been adjusted regarding the IFRS 16 effect.

MANAGEMENT'S REVIEW

Revenue

Revenue in local currencies, excluding the acquired business (organic growth), increased by 5% in the third quarter. Revenue, including the acquired business, increased by 8% to DKK 779 million in the third quarter.

The organic growth was driven by the Eastern European segment and is in line with the trend anticipated with front loading of the growth for 2019.
Prices are higher than last year in all regions.

There is no impact from currency exchange rates.

Gross margin

The gross margin in the third quarter was 34%, against 28% in 2018. Adjusted for the additional transport costs incurred in the UK and the planned stand still of the factory in Borough Green, the gross margin would have been 29% in 2018.

The increase this year is due to better pricing and strong operational performance.

EBITDA

EBITDA for the third quarter was DKK 182 million (2018: EBITDA before special items was DKK 143 million and DKK 127 million after special items).

All core markets are contributing to the increase in the quarter.

Impact from IFRS 16 is DKK 4 million. No impact from currency exchange rates.

Depreciation and amortization

Depreciation and amortization for the third quarter was DKK (45) million (2018: DKK (40) million).

Amortizations of DKK 9 million (2018: DKK 7 million) is related to customer relations and order backlog acquired in relation to business combinations.

Operating profit (EBIT)

Operating profit for the third quarter was DKK 137 million (2018: EBIT before special items was DKK 103 million and DKK 87 million after special items).

EBIT margin for the third quarter was 18% (2018: 14% before special items and 12% after special items).

Profit before tax

Third-quarter profit before tax was DKK 128 million (2018: DKK 79 million), a change of DKK 49 million.

Comprehensive income

The total comprehensive income for the third quarter amounted to DKK 82 million (2018: DKK 59 million).

Please refer to note 6 ”Pension obligations” for further comments on the adjustment of the UK pension obligation.

Taxation

Tax for the third quarter was DKK (31) million (2018: DKK (22) million), a change of DKK (9) million.

Cash flow

Cash flow from operating activities in the third quarter was DKK 165 million (2018: DKK 154 million), a change of DKK 11 million.

Cash flow from investing activities in the third quarter was DKK (29) million (2018: DKK (23) million), a change of DKK 6 million.

Third-quarter free cash flow was DKK 136 million (2018: DKK 131 million), a change of DKK 5 million

Cash flow from financing activities in the third quarter was DKK (99) million (2018: DKK (109) million), a change of DKK 10 million

Financing

Net interest-bearing debt totalled DKK 471 million at 30 September 2019, a decrease of DKK 54 million since the beginning of the year and a decrease of DKK 127 million since 30 September 2018.

The development since the beginning of the year is primary due to normal seasonal earnings and development in working capital offset by effects of implementation of IFRS 16, where a lease obligation of DKK 89 million was recognised 1 January 2019, and the acquisition of Baustoffwerke Dresden GmbH & Co. KG.

Third-quarter net financial expenses totaled DKK (9) million (2018: DKK (8) million).

Equity

The consolidated equity increased by DKK 269 million in the first three quarters of the year.

Equity

Amounts in DKK million	Q1-Q3 2019	Q1-Q3 2018
1 January	1,000	377
Profit/loss for the period	225	100
Actuarial gains/losses on pension plans	(3)	19
Foreign exchange adjustments	5	(16)
Capital increase	0	504
Non-controlling interests arising from acquisition	33	0
Other adjustments	(2)	(6)
30 September	1,258	978

Most material risks and uncertainties

For most material risk and uncertainties, please refer to note 4 “Significant accounting estimates and judgements”.

SEGMENTS

Revenue, external

	Q3		Q1-Q3	
Amounts in DKK million	2019	2018	2019	2018
Western Europe	531	511	1,531	1,335
Eastern Europe	248	209	684	528
Total	779	720	2,215	1,863

EBITDA before special items

	Q3		Q1-Q3	
Amounts in DKK million	2019	2018	2019	2018
Western Europe	115	96	288	210
Eastern Europe	83	56	200	119
Unallocated items	(16)	(9)	(53)	(29)
Total	182	143	435	300

Operating profit (EBIT)

	Q3		Q1-Q3	
Amounts in DKK million	2019	2018	2019	2018
Western Europe	79	55	187	95
Eastern Europe	73	42	172	93
Unallocated items	(15)	(10)	(53)	(42)
Total	137	87	306	146

Western Europe

Third-quarter revenue in Western Europe, excluding the acquired companies, decreased by 1% in local currencies (organic growth). Revenue including the acquired business increased by DKK 20 million to DKK 531 million, an increase of 4%.

Prices are higher in all markets, but volume decreases partially offset this. On a year-to-date basis there is 6% organic growth in the segment from a combination of price and volume. The decline in volume in the quarter is a combination of stock movements last year and slower markets.

In the UK the governmental stimulus program ‘Help to buy’ is keeping national housebuilders busy and our key UK customers continue to report strong order books despite uncertainties around Brexit. The market for regional housebuilders and small improvement projects seem to be softening.

The German market has seen a slowdown. H+H’s trading is in line with this. The adverse market development is more than offset by pricing and improvements in production.

Third-quarter EBITDA before special items was DKK 115 million (2018: DKK 96 million), an increase of DKK 19 million.

Third-quarter operating profit (EBIT) was DKK 79 million (2018: DKK 55 million), an increase of DKK 24 million.

Eastern Europe

Third-quarter revenue in Eastern Europe increased by 20% in local currencies (organic growth). Revenue increased by DKK 39 million to DKK 248 million, an increase of 19%.

Sales volumes and prices are favourable compared to the same period last year.

Poland has been constrained on capacity and volumes are only slightly higher than last year, hence increasing prices are the main driver for the growth. The market outlook continues to be positive for Poland, but additional capacity from competition seems to be higher than the market growth. Russia also had a strong quarter with higher volume and higher prices partly driven by favourable temporary competition conditions.

Third-quarter EBITDA before special items was DKK 83 million (2018: DKK 56 million), a change of DKK 27 million.

Third-quarter operating profit (EBIT) was DKK 73 million, (2018: DKK 42 million), a change of DKK 31 million.

On 31 October 2019 H+H International A/S has closed the divestment of its activities in Russia, 100% of the shares in OOO H+H. The sale is in line with strategic plans of focussing on core markets, the UK, Continental Western Europe and Poland. Refer to note 14 “Events after the balance sheet date” for further information.

OUTLOOK FOR 2019

- H+H updates its outlook for 2019:
    - Growth before acquisitions and measured in local currencies is expected to be around 6% (previously around 8%).
    - EBITDA before special items is expected to be DKK 525-545 million (previously DKK 510-550 million).
    - EBIT before special items is expected to be DKK 345-365 million (previously DKK 330-370 million).
    - Investments excluding acquisitions and divestments are expected to be in the region of DKK 140 million including investments for establishing a CSU production line near Gdansk, Poland and IFRS 16 effect (unchanged).

ABOUT THE OUTLOOK FOR 2019

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.
- Continued economic growth in our geographical footprint.
- The excellence programs continue to deliver improvements.
- Exchange rates, primarily for GBP, EUR and PLN, hold at their mid-November 2019 levels.
- Positive impact from IFRS 16 on EBITDA is in the region of DKK 22 million and in the region of EBIT DKK 4 million.
- Energy and raw material costs expected to rise at levels exceeding inflation.

The expectations for H+H's financial performance are also based on a number of general assumptions.

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

- Sales volumes and product mix
- Price competition
- Developments in the market for building materials
- Distribution factors
- Weather conditions
- Macroeconomic and geopolitical developments
- The factories run without significant breakdowns

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

STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS

The Executive Board and the Board of Directors have today discussed and approved the interim financial report for H+H International A/S for the first three quarters of 2019.

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

It is our opinion that the interim financial report gives a true and fair view of H+H's assets, liabilities and financial position at 30 September 2019 and of the results of H+H's operations and its cash flows for the period 1 January to 30 September 2019.

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

Copenhagen, 13 November 2019

EXECUTIVE BOARD

Michael Troensegaard Andersen
CEO

Peter Klovgaard-Jørgensen
CFO

BOARD OF DIRECTORS

Kent Arentoft
Chairman

Stewart Antony Baseley

Volker Christmann

Pierre-Yves Jullien

Miguel Kohlmann

Helen MacPhee

CONDENSED INCOME STATEMENT

	Group				
	Q3	Q3	Q1-Q3	Q1-Q3	Full-year
Amounts in DKK million	2019	2018	2019	2018	2018
Revenue	779	720	2,215	1,863	2,523
Production costs	(516)	(521)	(1,529)	(1,387)	(1,870)
Gross profit	**263**	**199**	**686**	**476**	**653**
Sales costs	(37)	(33)	(116)	(100)	(147)
Administrative costs	(43)	(34)	(130)	(102)	(150)
Other operating income and expenses	(1)	(5)	(5)	(13)	(11)
Profit/loss before depreciation, amortisation and financial items (EBITDA)	**182**	**127**	**435**	**261**	**345**
Depreciation and amortization	(45)	(40)	(129)	(115)	(162)
Impairment losses	0	0	0	0	(20)
Operating profit/loss (EBIT)	**137**	**87**	**306**	**146**	**163**
Financial income	1	0	1	0	1
Financial expenses	(10)	(8)	(22)	(25)	(39)
Profit/loss before tax	**128**	**79**	**285**	**121**	**125**
Tax on profit/loss from continuing operations	(31)	(22)	(60)	(21)	0
Profit/loss for the period	**97**	**57**	**225**	**100**	**125**
Profit/loss for the period attributable to:					
H+H International A/S' shareholders	97	57	224	100	125
Non-controlling interests	0	0	1	0	0
Profit/loss for the period	**97**	**57**	**225**	**100**	**125**
Earnings per share (EPS-Basic)	5.4	5.3	12.5	9.3	8.7
Diluted earnings per share (EPS-D)	5.4	5.3	12.5	9.3	8.7

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Group				
	Q3	Q3	Q1-Q3	Q1-Q3	Full-year
Amounts in DKK million	2019	2018	2019	2018	2018
Profit/loss for the period	**97**	**57**	**225**	**100**	**125**
Items that may be reclassified subsequently to profit or loss:					
Foreign exchange adjustments, foreign companies	(9)	4	5	(16)	(22)
Tax on foreign exchange adjustments, foreign companies	0	0	0	0	0
	(9)	4	5	(16)	(22)
Items that will not be reclassified subsequently to profit or loss:					
Actuarial gains and losses	(7)	(2)	(1)	25	26
Tax on actuarial gains and losses	1	0	(2)	(6)	(4)
	(6)	(2)	(3)	19	22
Other comprehensive income after tax	**(15)**	**2**	**2**	**3**	**0**
Total comprehensive income	**82**	**59**	**227**	**103**	**125**

CONDENSED BALANCE SHEET

	Group		
	30 September	31 Dec.	30 September
Amounts in DKK million	2019	2018	2018
ASSETS			
Non-current assets			
Goodwill	199	175	185
Other intangible assets	251	239	245
Property, plant and equipment	1,567	1,424	1,439
Deferred tax assets	11	13	30
Financial assets	8	1	1
Total non-current assets	**2,036**	**1,852**	**1,900**
Current assets			
Inventories	269	265	268
Receivables	231	171	250
Cash and cash equivalents	326	133	123
Total current assets	**826**	**569**	**641**
TOTAL ASSETS	**2,862**	**2,421**	**2,541**
EQUITY AND LIABILITIES			
Equity			
Share capital	180	180	180
Retained earnings/losses	1,282	1,063	1,034
Other reserves	(238)	(243)	(236)
Equity attributable to H+H International A/S' shareholders	1,224	1,000	978
Equity attributable to non-controlling interests	34	0	0
Total equity	**1,258**	**1,000**	**978**
Non-current liabilities			
Pension obligations	116	127	128
Provisions	36	17	21
Deferred tax liability	142	118	161
Deferred payment, acquisition og subsidiary	0	24	24
Interest-bearing debt	699	303	371
Lease liability	88	4	0
Total non-current liabilities	**1,081**	**593**	**705**
Current liabilities			
Interest-bearing debt	0	350	350
Lease liability	10	1	0
Trade payables	267	291	277
Income tax	29	12	22
Deferred payment, acquisition of subsidiary	24	24	24
Provisions	5	16	10
Other current liabilities	188	134	175
Total current liabilities	**523**	**828**	**858**
Total liabilities	**1,604**	**1,421**	**1,563**
TOTAL EQUITY AND LIABILITIES	**2,862**	**2,421**	**2,541**
Net interest-bearing debt	471	525	598

CONDENSED CASH FLOW STATEMENT

Amounts in DKK million	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018
Operating profit/loss (EBIT)	137	87	306	146
Badwill recognised in connection to the acquistion of Grupa Silikaty	0	0	0	(12)
Financial income received	1	0	1	0
Financial expenses paid	(10)	(8)	(22)	(25)
Depreciation, amortisation and impairment losses	45	40	129	115
Change in working capital	22	48	(34)	46
Change in provisions and pension contributions paid	(8)	(4)	(21)	(14)
Income tax paid	(22)	(9)	(46)	(17)
Operating activities	**165**	**154**	**313**	**239**
Sale of property, plant and equipment	0	0	0	1
Acquisition of enterprises and related deferred payments	0	0	(82)	(744)
Acquisition of land and property related to the acquired enterprises	0	0	0	(104)
Acquisition of property, plant and equipment and intangible assets*	(29)	(23)	(56)	(84)
Investing activities	**(29)**	**(23)**	**(138)**	**(931)**
Proceeds from / repayment of short and long-term debt	(93)	(102)	18	253
Proceeds from rights issue	0	0	0	504
Change in lease liabilities	(3)	0	(13)	0
Other financial activities	(3)	(7)	(1)	(6)
Financing activities	**(99)**	**(109)**	**4**	**751**
Total cash flow	**37**	**22**	**179**	**59**
Cash and cash equivalents, opening	289	101	133	13
Cash related to the acquired enterprises	0	0	14	51
Foreign exchange adjustments of cash and cash equivalents	0	0	0	0
Cash and cash equivalents at 30 September	**326**	**123**	**326**	**123**

*Cash flow from acquisitions of property, plant and equipment and intangible assets is offset by financial leases (IFRS 16) of DKK 4 million for the third quarter 2019 and DKK 17 million for the first three quarters 2019.

CONDENSED STATEMENT OF CHANGES IN EQUITY

Amounts in DKK million	Share capital	Translation reserve	Retained earnings	H+H shareholders share	Non con-trolling interests' share	Total
Equity at 1 January 2019	**180**	**(243)**	**1,063**	**1,000**	**0**	**1,000**
Total changes in equity in 2019						
Profit/loss for the period	0	0	224	224	1	225
Other comprehensive income	0	5	(3)	2	0	2
Total comprehensive income	**0**	**5**	**221**	**226**	**1**	**227**
Share-based payment	0	0	(2)	(2)	0	(2)
Non-controlling interests arising from acquisition	0	0	0	0	33	33
Total changes in equity in 2019	**0**	**5**	**219**	**224**	**34**	**258**
Equity at 30 September 2019	**180**	**(238)**	**1,282**	**1,224**	**34**	**1,258**
Equity at 1 January 2018	**108**	**(220)**	**489**	**377**	**0**	**377**
Total changes in equity 2018						
Profit/loss for the period	0	0	100	100	0	100
Other comprehensive income	0	(16)	19	3	0	3
Total comprehensive income	**0**	**(16)**	**119**	**103**	**0**	**103**
Issue of ordinary shares (7,193,346 shares)	72	0	432	504	0	504
Share-based payment	0	0	(6)	(6)	0	(6)
Total changes in equity in 2018	**72**	**(16)**	**545**	**601**	**0**	**601**
Equity at 30 September 2018	**180**	**(236)**	**1,034**	**978**	**0**	**978**

NOTES

1. Accounting policies

The interim financial report for the period 1 January to 30 September 2019 has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional Danish disclosure requirements for the interim financial reports of listed companies. The application of IAS 34 means that the disclosures are more limited than in a complete annual report, but that the recognition and measurement principles in International Financial Reporting Standards (IFRS) have been complied with. The interim financial report has not been reviewed by the company's auditors.

H+H has implemented IFRS 16 affecting the accounting policy for recognition of leases. IFRS 16 requires that 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.

Other than above are accounting policies consistent with those applied in the 2018 annual report, which includes a full description of the accounting policies applied.

2. Adoption of new and revised IFRSs

H+H International A/S has adopted all new or revised and amended International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) issued by IASB and endorsed by the EU effective for the financial year 2019. For the first three quarters, the implementation of IFRS 16 has impacted the EBITDA by DKK 16 million, EBIT by DKK 3 million and operating cash flow by DKK 13 million. Non-current assets and net interest-bearing debt as of 30 September 2019 is increased by DKK 92 million. The impact is in line with expectations disclosed in the Annual Report for 2018.

3. Segment information

Amounts in DKK million	Q3 2019			Q3 2018		
	Western Europe	Eastern Europe	Reporting segments	Western Europe	Eastern Europe	Reporting segments
Revenue, external	531	248	779	511	209	720
Revenue, internal	39	0	39	33	4	37
EBITDA before special items	115	83	198	96	56	152
Operating profit/loss (EBIT)	79	73	152	55	42	97
Invested capital	1,408	462	1,870	1,270	425	1,695
Other segment information						
Special items	0	0	0	14	0	14
Depreciation, amortisation and impairment losses	37	10	47	27	14	41
Non-current assets	1,534	484	2,018	1,410	462	1,872
Total segment assets	2,092	755	2,847	1,811	593	2,404

Amounts in DKK million	Q1-Q3 2019			Q1-Q3 2018		
	Western Europe	Eastern Europe	Reporting segments	Western Europe	Eastern Europe	Reporting segments
Revenue, external	1,531	684	2,215	1,335	528	1,863
Revenue, internal	125	1	126	99	16	115
EBITDA before special items	288	200	488	210	119	329
Operating profit/loss (EBIT)	187	172	359	95	93	188
Invested capital	1,408	462	1,870	1,270	425	1,695
Other segment information						
Special items	0	0	0	31	(6)	25
Depreciation, amortisation and impairment losses	100	28	128	84	32	116
Non-current assets	1,534	484	2,018	1,410	462	1,872
Total segment assets	2,092	755	2,847	1,811	593	2,404

Reconciliation of reportable segments' earnings before tax

	Q3	Q3	Q1-Q3	Q1-Q3
Amounts in DKK million	2019	2018	2019	2018
Operating profit (EBIT) for reportable segments	152	97	359	188
Unallocated group costs, corporate functions	(15)	(10)	(53)	(42)
Financial income	1	0	1	0
Financial expenses	(10)	(8)	(22)	(25)
Total	128	79	285	121

4. Significant accounting estimates and judgements

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

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

With reference to note 6 “Pension obligations”, significant accounting estimates and judgements have been made in connection to adjustment of the net defined-benefit pension obligation in the UK.

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

Further details of H+H’s principal risks and the external factors that may affect H+H are provided in the 2018 annual report.

5. Seasonal and cyclical fluctuations

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

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

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

6. Pension obligations

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

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

Compared to December 2018, a value adjustment has been made relating to the UK pension plan, affecting total comprehensive income. An updated extrapolation of the actuarial calculations carried out in connection to the interim period shows a slight increase in underfunding of DKK 1 million (the present value of the obligations exceeds the fair value of the plan assets).

The total pension obligation as at 30 September 2019 amounts to DKK 115 million, compared to DKK 127 million as at 31 December 2018. The development in the pension obligations from 31 December 2018 till 30 September 2019 is due to payments, interest, value adjustment and currency adjustment.

7. Financial resources and cash flow

Net interest-bearing debt, including financial leases, totalled DKK 471 million at 30 September 2019, down DKK 54 million since the beginning of the year. The development since the beginning of the year is primary due to normal seasonal earnings and development in working capital offset by effects of the implementation of IFRS 16, where a lease obligation of DKK 89 million was recognised 1 January 2019, and the acquisition of Baustoffwerke Dresden GmbH & Co. KG.

The Company's financing is subject to certain conditions e.g. the following financial covenants which has been fulfilled in the third quarter of 2019 and which are required - and with the current Outlook 2019 expected - to be fulfilled for the remaining quarter of 2019:

- Interest cover ratio (EBITDA to financial net payables)
- Leverage ratio (net debt to EBITDA)

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

8. Share-based payment

The matching share schemes for 2017 and 2018 are active and presented in consolidated financial statements in the Annual Report 2018. A matching share scheme was launched in Q2 2019. The scheme is largely identical to the schemes for 2017 and 2018. An amount of DKK 0.8 million was recognised under staff costs in the third quarter of 2019, against DKK 0.6 million in the same period in 2018.

9. Tax

Tax for the third quarter shows an expense of DKK (31) million which comprise of current tax DKK (27) million offset by adjustment of deferred tax DKK (4) million. Tax for the first three quarters shows an expense of DKK (60) million which comprise of current tax DKK (63) million offset by adjustment of deferred tax DKK 3 million.

10. Financial risks and derivative financial instruments

H+H's overall risk exposure and financial risks, including risks related to commodity prices, foreign currency, credit, liquidity and interest rate, are unchanged compared with the disclosures in note 26 in the consolidated financial statement in the Annual Report 2018.

11. Related parties

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

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

12. Business combinations

H+H International A/S' subsidiary H+H Deutschland GmbH have on the 29 April 2019 closed the acquisition of 51% of Baustoffwerke Dresden GmbH & Co. KG ("BWD"), a German calcium silicate unit business previously owned by HeidelbergCement AG.

BWD consists of the legal entity Baustoffwerke Dresden GmbH & Co. KG which own 100% of VAPIS stavebni hmoty s.r.o. (VAPIS), a sales company located in the Czech Republic.

The acquisition is in line with the announced strategy of consolidating the German white stone market to the product portfolio to strengthen H+H's position in the residential high-rise segment. H+H already holds a strong position within aircrete and calcium silicate in the Northern European region. With the acquisition of BWD, H+H position will be even stronger.

The purchase price amount to DKK 58 million which was paid in cash on the acquisition date.

With reference to the income statement for the first three quarters of 2019 transaction costs of DKK 1 million related to the acquisition of BWD has been recognised as "Other operating income and expenses".

The purchase price allocation shows acquired net assets at a fair value of DKK 67 million, including minorities' share of DKK 33 million, and related goodwill were consequently determined at DKK 24 million by applying the "Acquired goodwill method". Goodwill represents the value of the existing staff, access to new markets as well as the expected synergies from the acquisition.

Goodwill was DKK 175 million at the beginning of the year. Due to the acquisition of BWD, additional goodwill of DKK 24 million was recognised, resulting in goodwill as of 30 September 2019 amount to DKK 199 million.

The fair value of the acquired land and buildings is recognised on the basis of internal property valuations.

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% has been applied.

The fair value of customer relations and order book is determined through use of the Multi-Period Excess Earnings method (MEEM). Customer relations and order book are calculated as the present value of the net cash flow generated by sales to customers after deduction of a reasonable return on all other assets which contribute to generating the cash flows in question. The fair value of the identified intangible assets is based on the discounted cash flows that are expected to be generated by the continued use or sale of the assets. An after-tax discount rate of 12% has been applied.

Receivables are valued at the present value of the amounts that are expected to be received less expected costs for collection.

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 of receivables and liabilities. However, discounting is not used when the effect is immaterial.

Revenue and profit after tax of the acquired business BWD since 29 April 2019 included in the statement of comprehensive income for the reporting period amounts to DKK 37 million and DKK 3 million, respectively.

Revenue and profit after tax of H+H including the acquired businesses BWD for the current reporting period as though the acquisition date was 1 January 2019 amounts to DKK 2,232 million and DKK 234 million, respectively.

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

	BWD	In Total
	29 April	
Amounts in DKK million	**2019**	
Customer relations	39	39
Order book	3	3
Trademarks	1	1
Property, plant and equipment	49	49
Land and buildings	34	34
Financial assets	0	0
Receivables	8	8
Inventories	7	7
Cash	14	14
Acquired assets	**155**	**155**
Pension obligations	1	1
Provisions	18	18
Payables	8	8
Financial debt	28	28
Other current liabilities	7	7
Deferred tax	26	26
Assumed liabilities	**88**	**88**
Total identifiable acquired net assets	67	67
Hereof minority interests' share	(33)	(33)
Goodwill in connection with the acquisition	24	24
Purchase price	**58**	**58**
Movements in cash flow in connection with the acquisition:		
Purchase price	58	58
Of which cash is acquired	(14)	(14)
Of which financial debt is acquired	28	28
Net cash flow outflow in connection with the acquisition	**72**	**72**

13. Discontinued operations and assets held for sale

H+H own some land which is located close to residential areas or on areas that could be further developed. For 'Borough Green Gardens', no events have occurred in third quarter 2019 materially affecting the assessment given in the consolidated financial statement in the Annual Report 2018 re. page 14.

The company regularly review whether land or other assets is to be sold or maintained. No assets are classified as assets held for sale.

14. Events after the balance sheet date

On 31 October 2019, International A/S closed the deal with LSR concerning divestment of its activities in Russia (100% of the shares in OOO H+H). The sale is in line with strategic plans of focussing on core markets, the UK, Continental Western Europe and Poland. The proceeds will reduce the net interest-bearing debt and will be used 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.

Other than 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.