# Annual report 2017

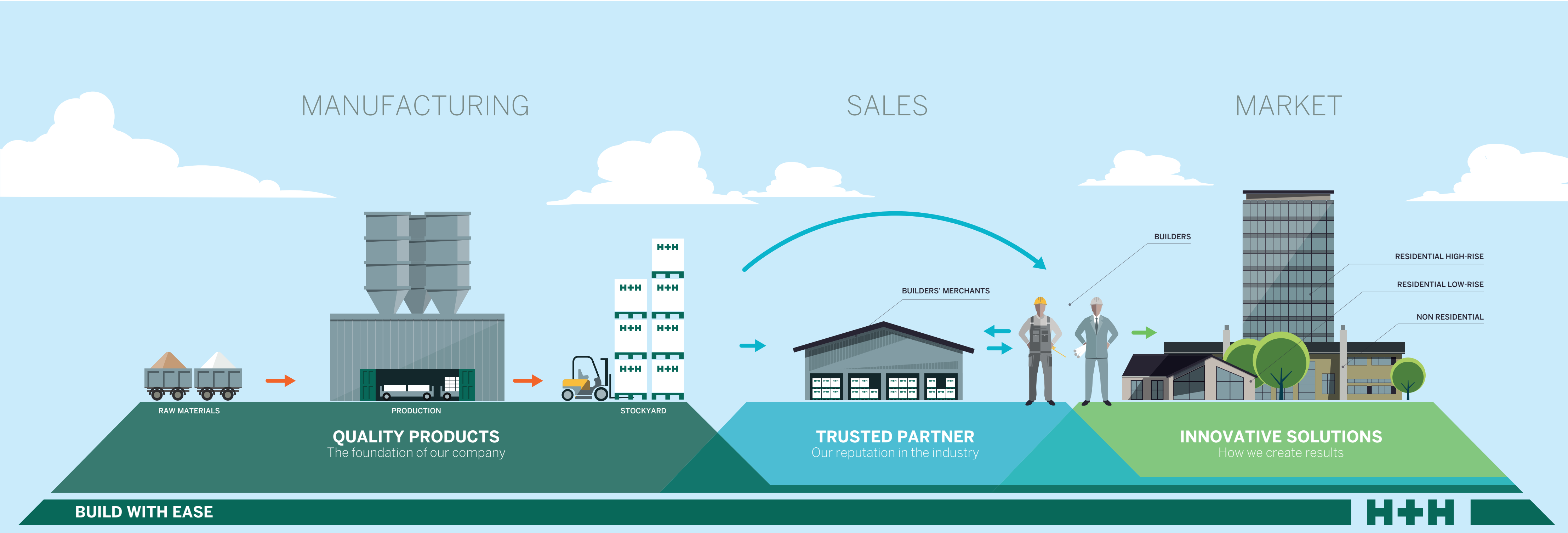
H + H International A/S
Company Reg. No.: 49 61 98 12
LEI: 3800GJODT6FV8QM841
Lautrupsgade 7, 6th Floor
2100 Copenhagen Ø
General Assembly: April 19, 2018
Chairman: Thomas Weincke

Build with ease

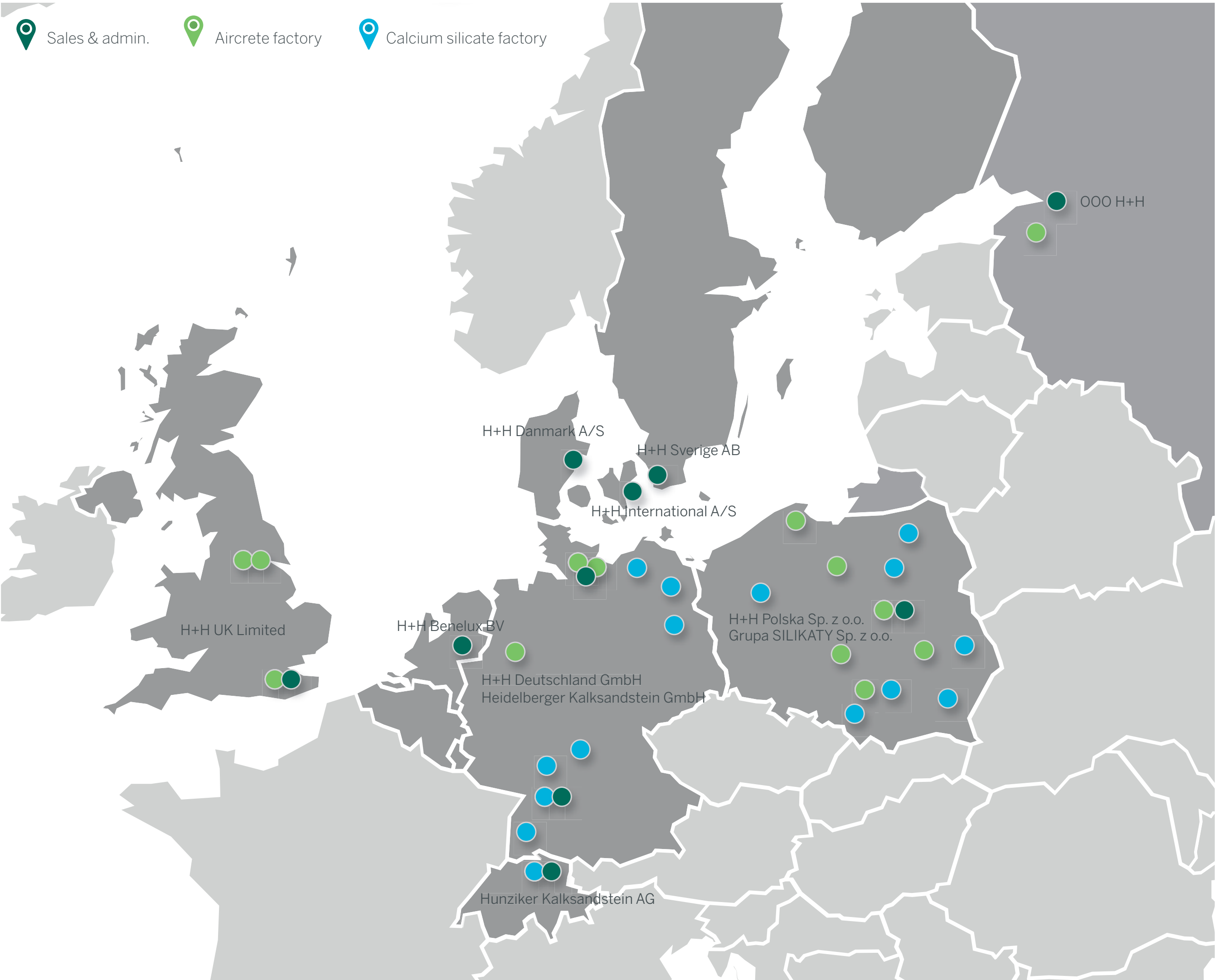
Table of contents



# The business model



# The H+H Group




## About H+H

H+H's core activity is the manufacture and sale of autoclaved aerated concrete (AAC or aircrete) and from 2018, calcium silicate units (CSU). The products are building blocks used for building new residential housing.

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

H+H has 13 aircrete factories in Northern and Central Europe and Northwest Russia with a total output of approximately three million cubic metres of aircrete a year and has a leading position in most of its markets.

The newly acquired calcium-silicate business is located in Germany, Poland and Switzerland with a total of 15 plants, and an annual production of approximately one million cubic metres of calcium silicate products. The acquisition of 7 Polish Plants await customary approval by the Polish authorities.

The Group reports on two segments; Western Europe and Eastern Europe. The countries with both production and sales are the UK, Germany and Switzerland in the Western European segment and Poland and Russia in the Eastern European segment. H+H also has sales subsidiaries in the Nordic and Benelux countries as part of the Western European segment.

The headquarter is located in Copenhagen, Denmark and the company is listed on Nasdaq Copenhagen.

# H+H takes a new strategic direction

During the past three years, H+H has increased earnings, normalized its debt position and enjoyed an increase in share price and thereby created shareholder value. This development serves as a starting point for taking the company in a new direction.

The acquisitions of Grupa Silikaty in Poland and HDKS in Germany and Switzerland were signed in 2017 and HDKS was closed on 28 February and Grupa Silikaty is expected to close shortly making 2018 a year of transformation.

The addition of calcium silicate units (CSU) to our product offering is changing our focus on supply of aircrete (AAC) to a focus on wall building materials which, at the same time, is giving us a stronger position in the fast-growing market for high-rise residential buildings.

The new business configuration will give the Group a more geographically balanced business with the UK, Germany and Poland equal in size. In combination with our broader product range this will give H+H a stronger position in the market.

The new platform creates further opportunities for H+H to participate in market restructuring within our business area. We see potential for optimizing our geographical footprint as several companies 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.

## Capital structure

H+H still operates in a cyclical business. Our targeted financial gearing ratio is between one and two, measured as EBITDA before special items to net interest-bearing debt. The ratio may exceed this range in periods with significant acquisitions, exemplified by the HDKS and Grupa Silikaty acquisitions.

In order to be within the targeted range, H+H intend to issue new shares with net proceeds of around DKK 500 million.

The proceeds will be used to reduce the interest-bearing debt due to the latest acquisitions and to strengthen the balance sheet which gives the opportunity to be agile and react quickly should opportunities occur to participate in further market restructuring.

Proposal for a share issue authorization will be submitted for the coming annual general meeting. Assuming unchanged market conditions, the share issues program will be executed shortly hereafter.

Going forward, our free cash flow will be used for repayment of net interest-bearing debt in periods where the financial gearing ratio is above the target range and for value-adding investments in the form of acquisitions and/or development of the existing business.

## Continuous positive market outlook

Looking across the market predictions for our markets we should enjoy tailwind in the coming years.

In the UK, the market for private housebuilding is still strong and we expect to benefit from our investment in the upgrade of the factory in Borough Green and maintain our market leader position within aircrete.

For Germany and Poland, the outlook is promising, and our new setup, together with a smooth and successful integration, will enable us to harvest market synergies.

Russia, however, will still need some time to get back to normal building activity levels.

For Nordics, the company is predominantly depending on the strong Danish market and relies to a lesser degree on the Swedish market.

As a result of the positive market outlook, we expect growth and higher earnings in 2018.

## Long-term financial targets

We have outperformed our long-term financial targets in 2017. As the market outlook for the coming years seems promising and we expect significant returns on our investments, we have adjusted the long-term financial target for the EBIT-margin.

We upgrade the EBIT margin before special items to at least 11% compared to previously 8-10% and maintain a ROIC of at least 12%.

Financial gearing is targeted to be between one and two.

On behalf of the Board of Directors,

Kent Arentoft

Chairman

*"We have managed to acquire two strategically important businesses, where our strong brand will support the expansion of the product range, and we still see potential restructuring opportunities in the market."*

Kent Arentoft, Chairman

# Key figures

| (DKK million) | Group 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Revenue | 1,621.6 | 1,610.6 | 1,621.0 | 1,379.9 | 1,260.1 |
| Gross profit | 433.5 | 404.8 | 410.2 | 340.5 | 261.5 |
| Operating profit before depreciation, amortisation, financial items and before special items (EBITDA before special items) | 242.3 | 210.6 | 182.3 | 140.1 | 93.6 |
| Operating profit before depreciation, amortisation and financial items (EBITDA) | 212.0 | 213.6 | 232.4 | 137.4 | 93.6 |
| Operating profit before special items (EBIT before special items) | 164.6 | 122.3 | 80.3 | 47.7 | 5.9 |
| Operating profit/loss (EBIT) | 134.3 | 125.4 | 130.4 | 45.0 | 5.9 |
| Net financing costs | (18.7) | (21.5) | (36.9) | (44.3) | (42.5) |
| Profit/loss before tax | 115.6 | 103.9 | 93.5 | 0.7 | (36.6) |
| Profit/loss after tax for the year from continuing operations | 94.9 | 95.9 | 58.4 | (6.8) | (40.1) |
| Loss after tax for the year from discontinued operations | (5.3) | (6.7) | (19.1) | (16.3) | (52.4) |
| Profit/loss after tax for the year | 89.6 | 89.2 | 39.3 | (23.1) | (92.5) |
| **Balance sheet** | | | | | |
| Non-current assets | 929.6 | 901.3 | 908.0 | 864.7 | 962.4 |
| Total current assets | 397.0 | 287.2 | 337.8 | 352.0 | 330.5 |
| Share capital | 107.9 | 107.9 | 107.9 | 98.1 | 490.5 |
| Equity | 377.4 | 277.5 | 255.0 | 151.7 | 293.9 |
| Non-current liabilities | 636.1 | 590.2 | 651.2 | 789.8 | 750.1 |
| Total current liabilities | 313.1 | 320.8 | 339.7 | 275.2 | 249.0 |
| Total equity and liabilities | 1,326.6 | 1,188.5 | 1,245.9 | 1,216.7 | 1,292.9 |
| Investments in property, plant and equipment | 109.9 | 83.3 | 60.7 | 42.6 | 35.5 |
| Interest-bearing debt (net) | 459.2 | 386.7 | 445.1 | 517.3 | 531.6 |
| **Cash flow** | | | | | |
| Cash flow from operating activities | 83.3 | 143.1 | 112.1 | 92.9 | 58.2 |
| Cash flow from investing activities | (144.2) | (75.0) | (53.9) | (32.6) | (30.1) |
| Cash flow from financing activities | 66.0 | (109.7) | (70.8) | (13.0) | 25.4 |
| Free cash flow | (60.9) | 68.1 | 58.2 | 60.3 | 28.1 |

| (DKK million) | Group 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Financial ratios** | | | | | |
| Gross margin | 26.7% | 25.1% | 25.3% | 24.7% | 20.8% |
| Operating margin (EBIT margin before special items) | 10.1% | 7.6% | 5.0% | 3.5% | 0.5% |
| Operating margin (EBIT margin) | 8.3% | 7.8% | 8.0% | 3.3% | 0.5% |
| Return on invested capital (ROIC) | 16.1% | 15.5% | 15.9% | 5.3% | 0.6% |
| Return on equity | 27.4% | 33.5% | 19.3% | (10.4%) | (26.0%) |
| Solvency ratio | 28.4% | 23.3% | 20.5% | 12.5% | 22.7% |
| Net interest-bearing debt/EBITDA | 2.2 | 1.8 | 1.9 | 3.8 | 5.7 |
| **Share and dividend figures** | | | | | |
| Average number of shares outstanding | 10,732,904 | 10,738,998 | 10,572,702 | 9,791,192 | 9,789,511 |
| Adjusted average number of shares outstanding | 10,732,904 | 10,738,998 | 10,572,702 | 9,791,192 | 9,789,511 |
| Share price, year-end (DKK) | 145.0 | 75.5 | 86.5 | 35.3 | 47.7 |
| Book value per share, year-end (DKK) | 35 | 26 | 24 | 15 | 30 |
| Price/book value | 4.1 | 2.9 | 3.6 | 2.3 | 1.6 |
| Price-earnings ratio (PE) | 17.4 | 9.1 | 23.4 | (15.0) | (5.0) |
| Earnings per share | 8.4 | 8.3 | 3.7 | (2.4) | (9.5) |
| Diluted earnings per share | 8.4 | 8.3 | 3.7 | (2.4) | (9.5) |
| Dividend per share | 0 | 0 | 0 | 0 | 0 |
| **Staff** | | | | | |
| Average full-time staff | 1,062 | 1,041 | 1,034 | 866 | 885 |

Earnings per share and diluted earnings per share have been calculated in accordance with IAS 33. The other financial ratios have been calculated in accordance with the Danish Finance Society's "Recommendations & Financial Ratios 2015".

# Solid performance and building a new platform

## Satisfactory performance

The financial performance in 2017 was satisfactory, as we have improved over last year despite being challenged by adverse market development in our core segment in Germany and also in Russia.

We narrowed the outlook for EBITDA during the year to the upper half of the original range of DKK 220-240 million and were able to report an EBITDA before special items of DKK 242 million which is DKK 32 million better than last year.

This was achieved from a combination of strong markets, impact from our excellence programs and the restructuring of the Polish market in 2015 based on the acquisition of Grupa Prefabet. On this note we are happy to report that H+H Poland in 2017 achieved the landmark of 'over 6% EBIT-margin' that was promised when the transaction was announced back in 2014.

Overall, sales prices have increased, despite headwind from currency impact and country mix, with the UK, Poland, Russia and Nordic contributing with higher prices. Volume is lower than last year, partly due to volume restrictions in the UK due to stock building prior to the factory shutdown in Q1 2018, but also Germany and Russia are lower on sales volume due to adverse market development.

## Market review

### The UK

The UK market for residential housebuilding continues to be strong. The fundamental supporting factors remain positive. There is governmental support for further growth to overcome the issue with undersupply of houses, hence governmental support via 'Help to Buy' is confirmed to 2021. Interest rates are expected to remain at low levels.

Expectations for the coming years indicates more houses to be built, but we are monitoring the Brexit negotiations carefully to be able to react to any changes.

On the capacity side we expect capacity to increase, both from our upgrade of the Borough Green factory as well as from competition. We welcome this in order to ensure aircrete continues as the material of choice for wall building.

As a result of the upgrade project the factory in Borough Green is not expected to deliver any output in the first quarter, which will impact the financial performance. As in 2017, costs are expected to be incurred due to the resulting need to import products from sister companies. The increased transportation costs are expensed in production costs at the point of sale and treated as a special item.

### Germany

Much against expectations the market for low-rise residential housing declined in 2017. Our sales volume decline was in line with the market development. Prices were on par with last year.

The market for low-rise residential housing is expected to remain at current level, but synergies from the acquisition of HDKS should improve our market position in aircrete. The market for high-rise residential house building is strong, and due to HDKS, we now have a stronger product offering.

Furthermore, the new government has announced a program to support housebuilding which is expected to have a positive impact on some of the bottleneck issues, although it will take some time before the effects of the program kicks in.

### Poland

Building activity levels in Poland increased in 2017. Sales volume increased, and for most of the year factories had low stock levels due to strong demand. This have had a positive impact on prices and double-digit price increases were achieved, including price increases during the winter months, which is unusual for Poland.

*"Our financial result in 2017 was satisfactory, and at the same time we have entered into transformational acquisitions to ensure growth, a more balanced geographical footprint and a platform for further market consolidation."*

Michael Troensegaard Andersen, CEO

Going forward, moderate growth in building activity levels is expected. Installation of some additional production capacity by competitors can be expected, but part of this is aimed at export sales, so for the time being with high building activity levels we do not see this as a critical issue.

The growth also supports our entrance into the CSU market, where we expect to harvest synergies from cross selling and optimisation of the factories.

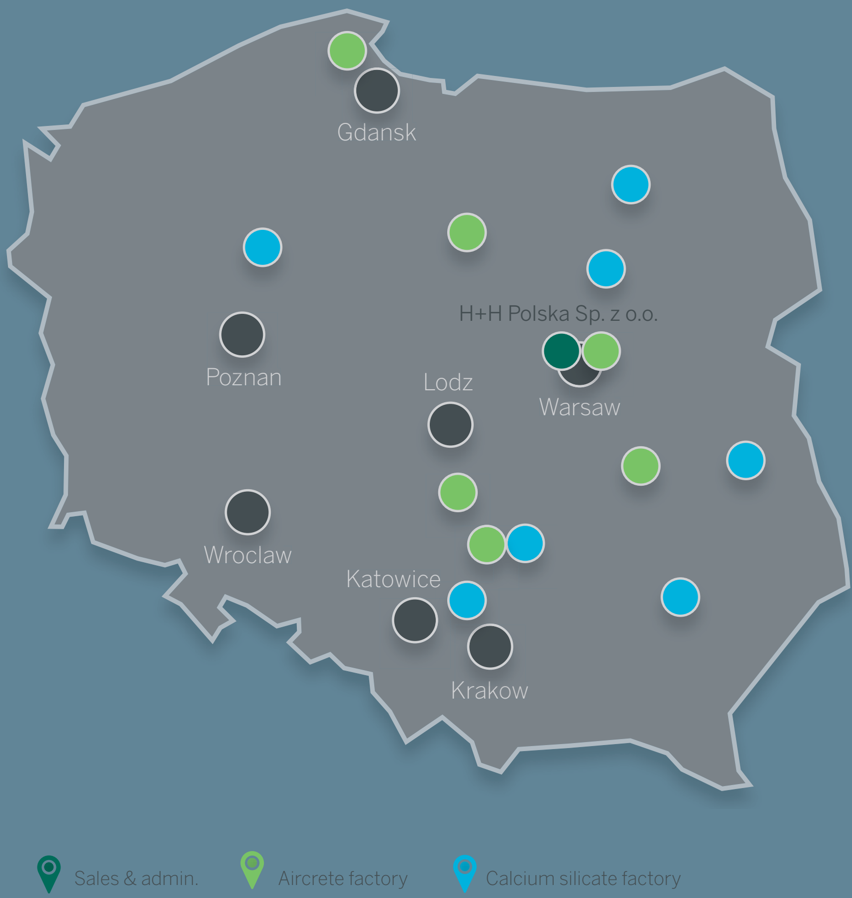
**Russia**
The market in North-West Russia was a disappointment as the market declined against our expectations. A significant drop in sales volume was partly made up by higher prices.

Market growth is expected in 2018, but there is a general overcapacity in the market. For 2018 there is a special circumstance where the market leader will relocate its factory, hence sell from the stock that has been built up prior to the relocation. The duration of the shutdown is unknown but should cater for some additional sales opportunities.

**Nordic**
The Nordic business is predominantly related to Denmark. The market development has been good and supported higher sales volume and better pricing. There are no signs of the market reversing, although bottleneck issues should be observed.

**Benelux**
Building activities are continuing to increase and the outcome has been more sales volume. Adverse mix effects and some strategic pricing have had an impact on the prices. We expect continuous growth in the Benelux market for 2018.

# Acquisition of Grupa Silikaty




Grupa Silikaty is the second largest producer of CSU in Poland and operates seven factories. The company was bought by H+H in 2017.

The acquisition was announced 7 June 2017 and is pending customary approvals from Polish authorities. The anti-trust clearance has been obtained and we expect closing of the transaction in near future.

Grupa Silikaty had estimated revenue in 2016 of DKK 157 million and EBITDA of DKK 11 million.

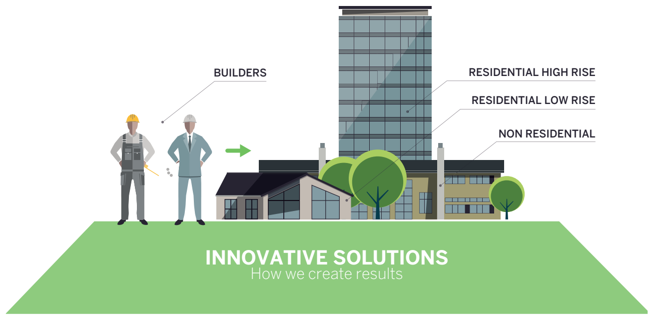
The market share in the CSU market is around 30% and the company has around 300 employees.

# *Build with ease* - H+H's value proposition

MANUFACTURING


SALES


MARKET




## Elements in H+H's value proposition

Our *Build with ease* value proposition is the cornerstone of our efforts to continue the journey improving the business. H+H offers a wide range of services and solutions to ensure a high level of customer satisfaction. The value proposition sets the overall standard for how we work as a team with our customers and has been incorporated across our organisation.

**Quality products**
H+H products are designed to meet our own exacting quality standards, enabling builders to meet regulatory requirements for internal partition walls, solid walls, cavity walls, separating walls and solid foundations.

**Trusted partner**
We have always listened and responded to what our customers tell us, because we value nothing more highly than their trust in our products and our service. Our sales team is organized around the needs of our customers to provide continuity of care. We want customers to experience a knowledgeable and professional staff that provides a dedicated, personal service. Our 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 our key customers.

Our main customer groups are builders' merchants and residential developers. We will continue to work closely with them to offer the best possible solutions at fair prices with products that are fit for purpose. Only through our joint success will we be able to bolster our market position and increase sales and earnings.

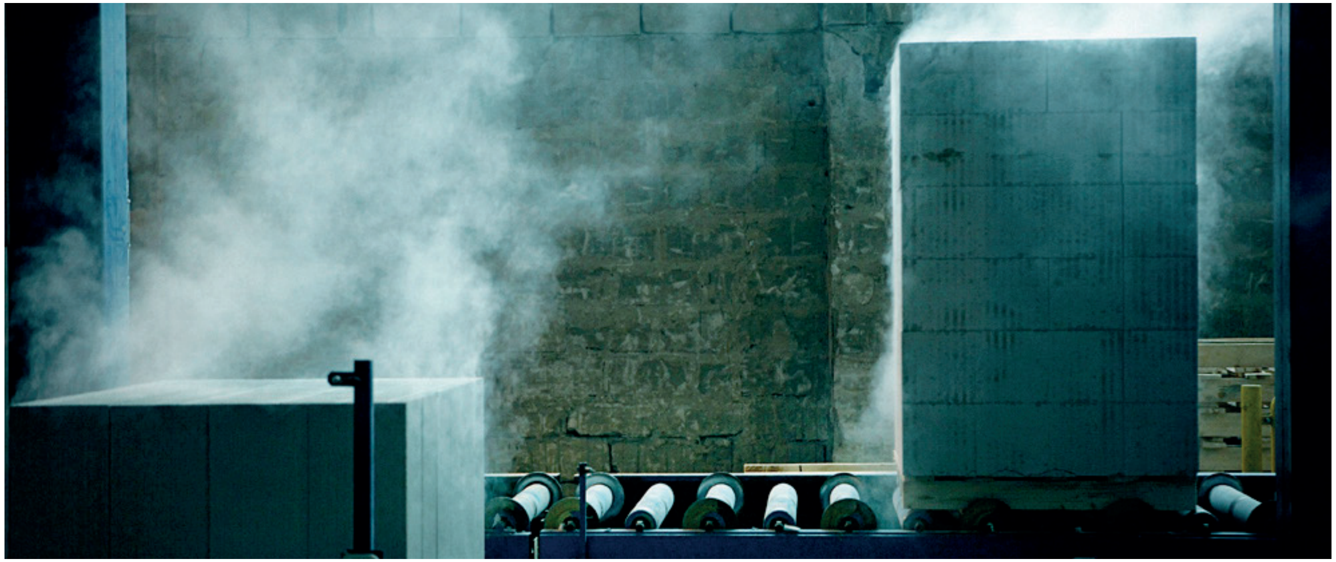
**Innovative solutions**
We support our products with a research and development programme and continuously improve and expand our product range through technological developments and design innovation. We continually update and refine our manufacturing processes to increase the efficiency of our products and ensure that they meet regulatory requirements. We provide first-class technical support including assistance in understanding latest energy trends, calculations of load bearings, optimisation of logistics, inspection of documents to suggest improvements and a comprehensive range of technical data sheets and literature.

# Transformation

2017 was the year when H+H started our transformation from being an aircrete (AAC) only company to expanding into the wall building materials segment by adding calcium silicate units (CSU) to our product portfolio. This was done with two very different acquisitions, in Poland and Germany respectively, and the road ahead to secure integration and harvest the synergies will be key milestones in 2018.

Despite some organic growth in the high-rise residential segment during 2017, it became clear that we would not attain sustainable levels quickly enough. Hence, we decided to pursue acquisitions in both Poland and Germany as announced in the annual report from last year. We see the combined business as a better growth platform for the years to come, both for organic growth and if additional acquisition opportunities become available.

Successful integration of the two acquisitions will, together with the factory upgrade in Borough Green, be key to creating a stronger, more robust and more equally balanced business.



*Autoclave transfer cars and autoclave modification works.*

### Borough Green factory upgrade

In March 2016, H+H announced the Borough Green factory upgrade project to ensure availability of aircrete and to maintain our market leader position within aircrete in the UK. The project is running to schedule, and the installation of new equipment  is taking place during the first half of 2018. As a consequence, 2018 will bring lower production output, which is being mitigated through significant imports from sister companies to service the market in the period when the factory is shut down.

The upgrade will increase capacity to approximately 75,000 m3 which is expected to be up and running during the first half of 2018. Our plans anticipate gradual ramp-up during the second quarter of 2018 to reach normal production by the end of the second quarter.

### Acquisition of CSU business in Poland

H+H has entered into a preliminary share purchase agreement regarding a CSU business in Poland. The process of obtaining the customary approvals from the authorities has taken longer than anticipated. The anti-trust clearence has been obtained and we expect the transaction to be closed in the near future.

After the acquisition of Grupa Prefabet in 2015 and a successful restructuring of the aircrete market, it was clear that further growth in the aircrete business should come from market growth or market share gains from either other aircrete players or substitute products. Being well situated in the residential low-rise segment but to a lesser extent in the residential high-rise segment H+H would miss out on some of the growth opportunities in the residential high-rise segment due to limited product attributes of aircrete (AAC) in this segment.

In Poland, the CSU product has penetrated the wall building market over the last years. The product is sold through the same sales channels as AAC and has superior product attributes in regards to strength and sound insulation, which is important in the high-rise segment.

It was agreed to acquire the CSU manufacturer Grupa Silikaty for a purchase price of DKK 64 million on a deferred payment schedule. The target company has seven factories and there is a good geographical overlap between the AAC and CSU business.

Synergies of more than DKK 10 million are expected from the transaction when fully implemented in 2020 coming from both market, production as well as SG&A.

The integration process is based on rapid implementation of processes and infrastructure to support cross selling of the AAC and CSU products. There will be one market organisation and one joint setup for administration and back office functions. Optimising the output from the factories which will happen in three waves; the initial wins from a fast assessment of each factory, the midterm effect of optimising processes and finally some investment projects.

### Acquisition of CSU business in Germany

Similar to the situation in the UK, the AAC business in Germany is very closely linked to the residential low-rise market, In Germany, the high-rise segment has a better momentum than the low-rise segment.

Due to the regional position of H+H's aircrete business it has not been possible to drive national market changes, hence a break-through in the residential high-rise segment has not been achieved, although our desire to play a significant role in this market is unchanged.

The acquisition of the CSU business 'HDKS' adresses the challenges above as CSU is predominantly sold to the residential high-rise segment. Furthermore, the footprint complements the existing AAC network to give national coverage.

The acquisition price for HDKS is DKK 818 million. The target company has seven factories in Germany and one in Switzerland.

Synergies in the region of DKK 10 million is expected from the transaction when fully implemented in 2020 coming from market and SG&A.

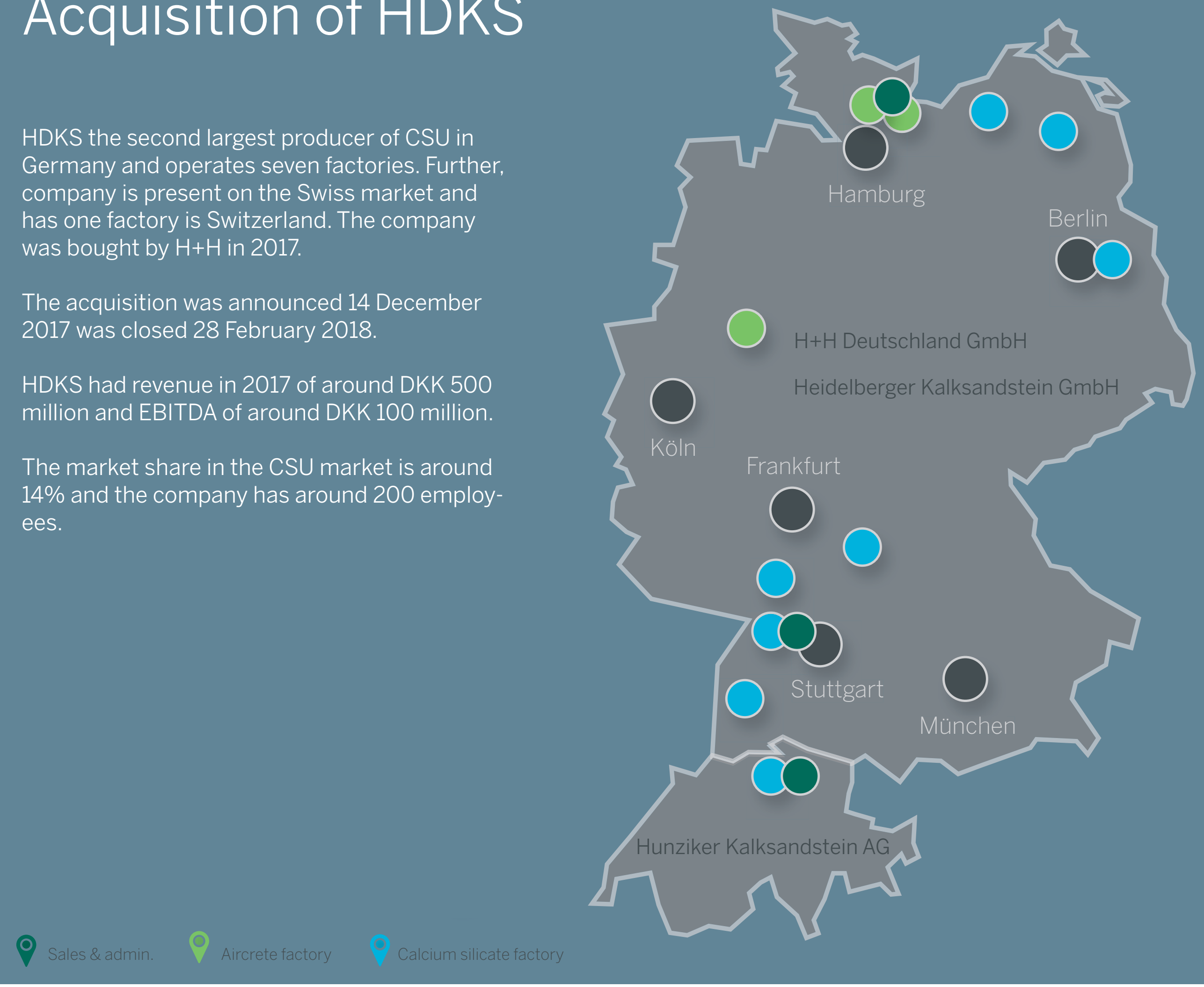
## Acquisition of HDKS

HDKS the second largest producer of CSU in Germany and operates seven factories. Further, company is present on the Swiss market and has one factory is Switzerland. The company was bought by H+H in 2017.

The acquisition was announced 14 December 2017 was closed 28 February 2018.

HDKS had revenue in 2017 of around DKK 500 million and EBITDA of around DKK 100 million.

The market share in the CSU market is around 14% and the company has around 200 employees.



The duration of the integration process is longer than in the Polish case as both the German AAC and CSU organisations have a full-fledge setup to run the business. The target is the same as for the Polish case; one market organisation and one joint setup for administration and back office functions.

### Further growth opportunities

The two acquisitions have transformed the company from a focused AAC company to a broader wall building material supplier. Stakeholders seem to understand and appreciate the rationale behind the transactions.

Other significant transactions have taken place in 2017 within wall building materials in our geographical footprint. Further restructuring is likely as some family-owned business have succession issues, and other businesses are subsidiaries in groups where wall building materials are non-core business.

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

### Optimise utilisation of land

Besides growing the business, some assets could see an increase in its value if specific events takes place and the company decides to pursue the opportunities. Around the Borough Green factory there are sand reserves available on land plots owned by H+H UK. As part of the conversion from PFA to sand based products, obtaining excavation rights will ensure security of sand supply and minimize transport costs if the sand can be delivered from own sources rather than buying externally. The company is currently trying to obtain these excavation rights.

BOROUGH GREEN GARDENS

Another land plot owned by H+H UK is a part of 'Borough Green Gardens', a consortium of local landowners and businesses that have submitted preliminary proposals to Tonbridge & Malling Borough Council (TMBC) as part of the emerging Local Plan.

These proposals endeavour to help the local community to meet the continued demand for housing. If the proposal is brought to life it will release the financial potential of a currently unused asset.

H+H owns 50 acres out of a total of approximately 333 acres of the land outlined on the map below, indicated by "1" and "2". The potential divestment will not impact the operation of the factory in Borough Green.

# The strategic ambition

The strategic ambition is to use the 'Build with ease' value proposition to create balanced profitable growth.

**Acquisitions resolve strategic issues**
Until recently, penetration of the high-rise segment in Central Europe was a cornerstone in securing growth options going forward as this is driven by the global megatrend urbanisation. With the entrance into the CSU market in Germany and Poland we are now in a position where we are in a better position to resolve this strategic challenge.

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

Internal challenges on scale and critical mass also benefits from the acquisitions. 2018 will be an important year to secure integration between the businesses and start harvesting the integration as we target to have integrated country organisations in place no later than end of the year.

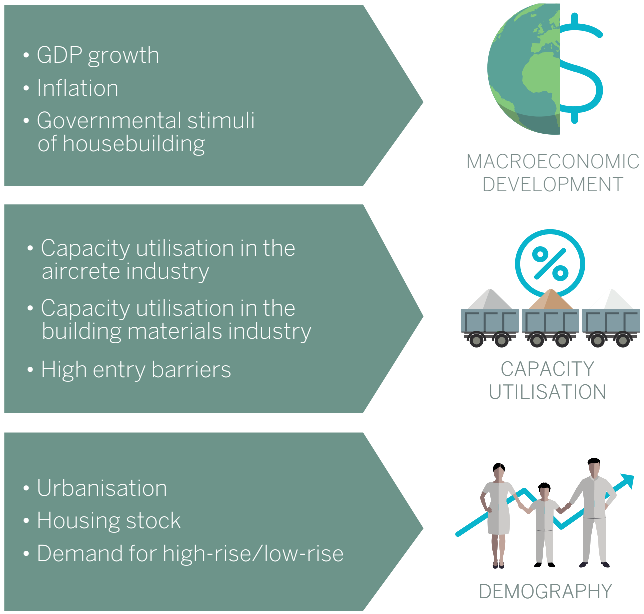
### The value proposition and branding
The broader product focus does not change the overall thinking behind the value proposition 'Build with ease'. But a number of details need to be reviewed due to the changes, as well as our branding must reflect who we are. We have initiated analysis in order to ensure relevant changes are implemented during the integration processes.

### Organic growth
As building activity levels across our footprint are at high levels except for Russia, further organic volume growth will have to come from market share gains and potential productivity improvements in our customer base leading to higher demand for our products.

Besides organic growth from volume we will continue our efforts on commercial excellence to ensure we create value for our customers with our products and service offering.

### Earning improvements

Besides earning improvements from organic growth, excellence programs in production and on procurement are already in place and will on an on-going basis contribute to increase our margins. Please refer to separate section for more details.




In the UK, the Borough Green upgrade will ensure operational improvements, e.g. more consistent output and less risk of downtime. When the upgrade is completed, large scale conversion from PFA to sand is another important project to reduce the reliability on PFA in the coming years. Full conversion is expected in 2022.

In Poland, an upgrade of the factory in Lidzbark is likely, as it is the oldest aircrete factory in Poland and a full product harmonisation is a desire to complete the optimisation of our footprint inside Poland following the acquisition of Grupa Prefabet in 2015.

For the Nordic region, a strong position in Sweden is desirable to have a better balance in the region. As no growth is foreseen in the Swedish building market we do not foresee an immediate breakthrough, but will continue to position ourselves as an alternative to wooden houses and an attractive mineral wall provider.

Finally, potential M&A activities – predominantly in Central Europe – could improve earnings further. Our new platform provides good opportunities, as targeted bolt-on acquisitions can be done without anti-trust approval. H+H has identified a number of potential acquisition targets and has an ongoing dialoque with some of these. However, the ability to complete future acquisitions and the timing hereof 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 encountered due to strategic decisions on the positioning of the company, exposure against certain events etc., please refer to separate section on risk mitigation.

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

- The business is cyclical.
- Penetrated markets are a limited geographical part of the world.
- Mainly exposed to new building of residential and particularly low-rise houses. Strong CSU positions will partly mitigate the segment exposure.
- Aircrete is the core product, i.e. an arrow product portfolio. CSU is a new application not yet tested by H+H.
- Slow penetration of new products and applications within our industry.
- A high degree of substitutability of the product.
- High entrance barriers as it is a capital-intensive industry.
- Low productivity growth in construction may drive new technology

The external drivers for the business should also be observed, as adverse development in these drivers will impact the business.

# Excellence programs

Our excellence program can be divided into three main streams;

- Commercial excellence program
- Continuous improvement program
- Procurement program

## Commercial excellence program

The commercial excellence program has been the cornerstone in our efforts to improve on the following parameters;

- Expanding the market by penetrating new market segments (high-rise residential buildings),
- Create more pull sales (where we are in direct contact with the builders), and
- Increase customer loyalty.

The 2017-2019 excellence program focuses more on the relations between the company and its customers with the aim to ensure customers demand around the product, services and how digitalisation impacts the processes and relations. All of this is done to ensure the company has the right positioning and tools available to meet customers demand.

The program has helped us over the last years to generate more volume and higher prices.

## Procurement program

Started in 2016 a focused drive on improved procurement has given strong results in 2017. This will be extended via a Group Level Category Management / lead buyer support network that will be developed during 2018 for 2018-2020 to mirror the project work completed in 2017.

The category management setup will cover the following areas: Transport, packaging, cement, lime, metals, maintenance spares and energy.

## Continuous improvement program

Our manufacturing units continue to take advantage of the continuous improvement program and deliver, in safe and environmental friendly production surroundings, quality aircrete with attributes fit for purpose. Customers confirm they see H+H as a trusted partner, and our close cooperation with customers opens new opportunities to understand their needs and bring innovative solutions into play. This win-win approach is vital to avoid commoditisation of aircrete, as this would deteriorate the long-term value our customers bring to their customers.

The main achievement during 2017 has been the ability to serve the markets, progressing on lean and to mitigate the adverse impact from the PFA situation in the UK. Furthermore, preparing the factory upgrade in Borough Green has been a vital activity to ensure a well-prepared project.

Going forward, group operations will be focused on a 5-S model:

- Safety
- Service
- Synergies
- Staff
- Stock

The target will remain that this program together with the procurement program are able to reduce impact from cost inflation in production.

# Innovation

As for any other industry, digitalisation and innovation is on the agenda in the building materials industry.

'Innovative solutions' is part of our value proposition. We are proud to report that we in 2017 have been rewarded with three innovation awards. In the UK, the SIG I-House incorporating Celcon Element by H+H has won the Best Product award at the Housebuilder Awards 2017 and the Housebuilder Product Awards where the revolutionary housebuilder system won the award for Best Building Fabric Product. H+H Nordic was awarded the Innovation of the Year from the patent agentcy Patent Nord for the installation vehicle 'Ergo'.

As aircrete development is limited by physics the industry has seen no real breakthroughs on the product side for years. H+H has been able to excel in application methodologies and services around the core product. We will continue to pursue local innovations for later evaluation of possibility to do cross-border launch – directly or in modified version to be fit for the new market(s).

Furthermore, we are monitoring the trends in the industry closely. On digitalisation, construction scores very low in comparison with other industries. BIM is one of the common denominators when talking about digitalisation in the construction industry and we have developed BIM objects on some products so we can join before it takes off. We are also surveilling other initiatives seen in the industry, such as robot technologies for installation and 3D printing. So far, these technologies have not reached a maturity level where our business model needs adjustments.

Furthermore, we are participating in the European Aircrete Association (EAACA) to influence building norms across Europe.


*Managing director Jacob Lypart receives the Patent  Nord Innovation reward on behalf of H+H Danmark A/S*

# Financial highlights

## Performance in 2017

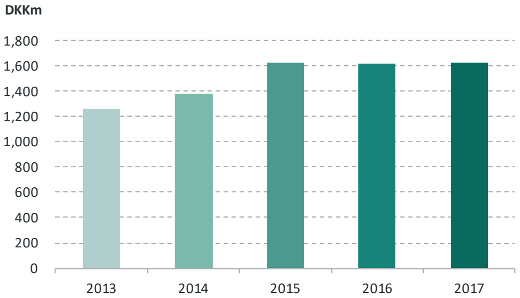
- Revenue increased by 2.7% in local currencies (organic growth) and increased very slightly in DKK to DKK 1,622 million.
- EBITDA of DKK 242.3 million before special items, which slightly exceeded our previous outlook of DKK 230-240 million.
- Our margins have increased due to the success of our sales and operational strategies. Most markets have seen improved profitability and in particular Eastern Europe.
- Investments of DKK 110 million were made during 2017 slightly less than our guidance.
- EBIT margin before special items of 10.1% against a long-term target of minimum 8 to 10%.
- ROIC was 16.1% against a long-term target of minimum 12%.
- Net interest-bearing debt on 31 December 2017 of DKK 459 million. The debt-to-EBITDA ratio is 2.2.
- Cash flow from operating activities of DKK 83.3 million (2016: 143.1 million) and cash flow from investing activities of DKK (144.2) million (2016: (75.0) million).
- Free cash flow DKK (60.9) million (2016: DKK 68.1 million).
- Equity on 31 December 2017 of DKK 377 million, up DKK 100 million on 31 December 2016, mainly due to profit for the year and exchange rates.
- In March 2017 a new committed credit facility of DKK 650 million was agreed with Danske Bank A/S. The credit facility was amended in June 2017 in connection with the acquisition of Grupa Silikaty.
- In December 2017 a term loan agreement of DKK 850 million was agreed with Danske Bank A/S in connection with the acquisition of HDKS.

*We have been pleased with the development during 2017 in EBITDA, our solvency ratio and our margins. The increase in our debt was expected and can be explained by the planned increase in stock and capital investments to support the factory upgrade at Borough Green.*

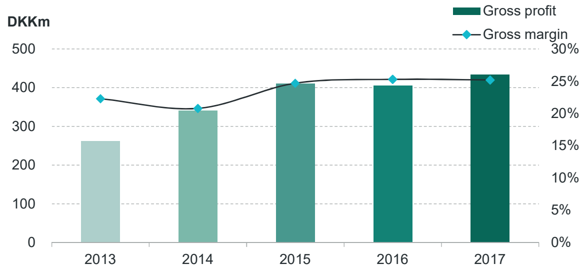
Ian Lea Perkins, CFO

## Group performance

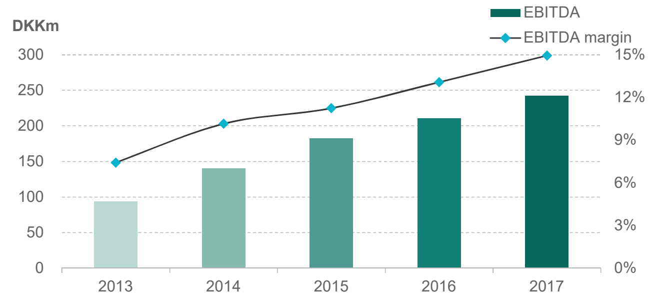
### Revenue



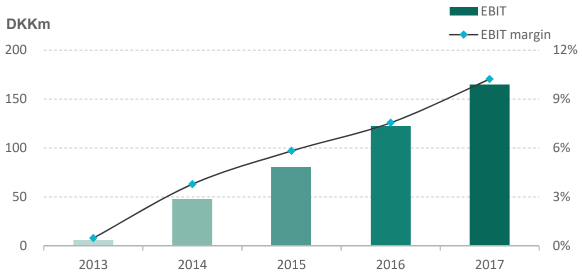

### Gross profit



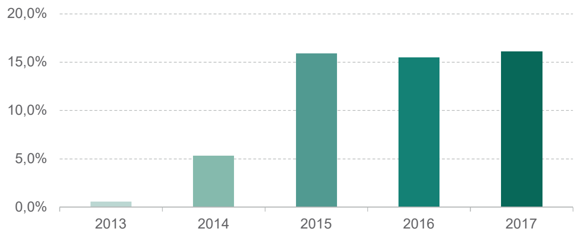

### EBITDA before special items



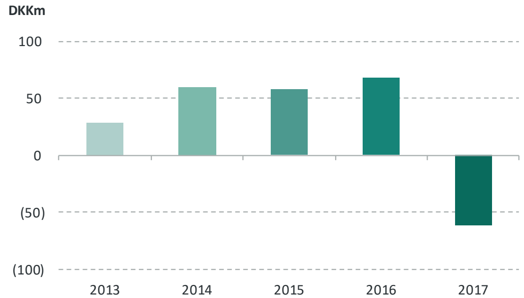

### EBIT before special items



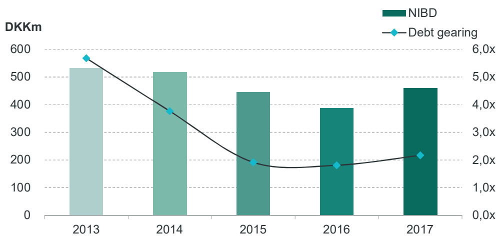

### Return on invested capital (ROIC)



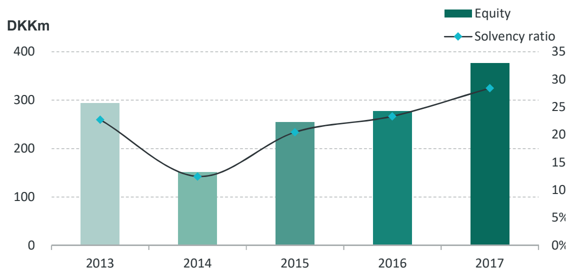

### Free cash flow




### Net interest bearing debt

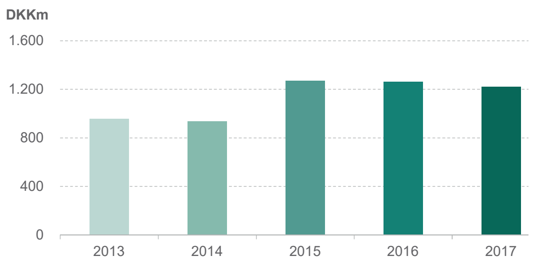



### Equity

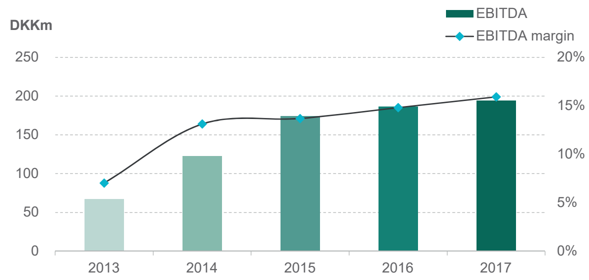


## Segments and allocations

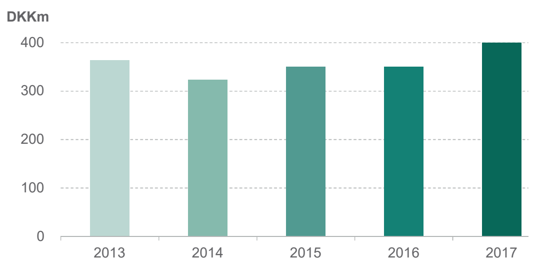
### Revenue Western Europe



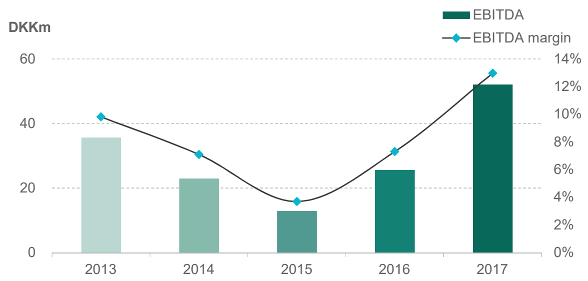

### EBITDA before special items Western Europe



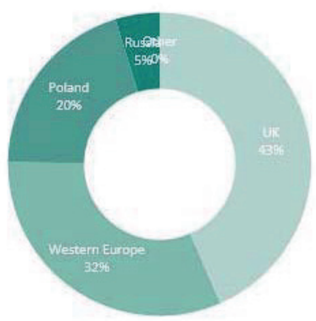

### Revenue, Eastern Europe



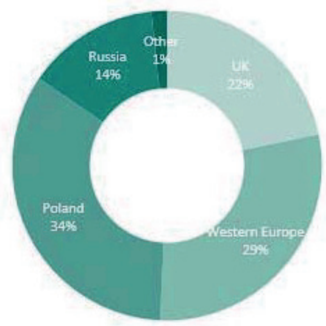

### EBITDA before special items Eastern Europe



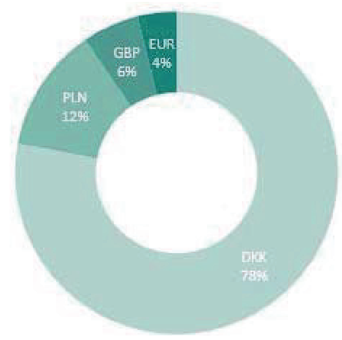

### Revenue allocation




### Allocation of non-current assets




### Debt allocation per currency



# Financial review

## Income statement

### Revenue

Revenue was DKK 1,622 million, against DKK 1,611 million in 2016, a small increase of DKK 11 million. Revenue has predominantly been influenced by increased selling prices in most regions, partly offset by adverse volume.

The GBP exchange rate had a negative effect on revenue of DKK 48 million. The PLN had a positive impact of DKK 9 million and the RUB a positive impact of DKK 7 million.

### 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 26.7%, against 25.1% in 2016. Average selling prices were up on 2016, and increased capacity utilisation due to higher production volumes had a positive impact on margins. These positives were offset in part by additional transportation costs (reported as special items) from the sale of imported blocks from sister companies in to the UK to support the Borough Green factory upgrade.

### Special items

Special items ware negative of DKK 30 million, against positive DKK 3 million in 2016.

The majority of special items DKK 19 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 10 million were also incurred as a result of the acquisitions in both Poland and Germany as well as costs of DKK 1 million for close down of factories in Poland. These costs are recognised as "Other operating costs" in the income statement.

### EBITDA

EBITDA came to DKK 212.0 million, against DKK 213.6 million in 2016, down less than 1%. This is largely due to improved profitability for most of our businesses offset by the negative impact from special items and currency.

EBITDA before special items was DKK 242.3 million, against DKK 210.6 million in 2016, up 15%. The increase in EBITDA before special items was largely due to better selling prices offset in part by the adverse development in GBP.

### Operating profit (EBIT)

Operating profit was DKK 134.3 million (EBIT margin of 8.3%) against DKK 125.4 million in 2016 (EBIT margin of 7.8%); an increase of DKK 8.9 million.

Before special items, EBIT was DKK 164.6 million (EBIT margin of 10.1%) against DKK 122.3 million in 2016 (EBIT margin of 7.6%).

### Return on invested capital (ROIC)

Return on invested capital was 16.1%, compared with 15.5% in 2016.

### Profit before tax from continuing operations

Profit before tax was DKK 115.6 million, against DKK 103.9 million in 2016, an improvement of DKK 11.7 million.

Net financials totaled DKK 18.7 million in 2017, against DKK 21.5 million in 2016. The reduction came mostly from lower interest rates. Besides interest expenses and foreign exchange adjustments, the figure includes amortisation of borrowing costs, payments for an unused committed credit facility and expenses for the pension scheme in the UK.

### Taxation

Tax was DKK 20.7 million, against DKK 8.0 million in 2016. The main explanation was from deferred taxation primarily related to change in valuation of tax assets in 2016.

### Discontinued operations

Discontinued operations generated a loss of DKK 5.3 million, against a loss of DKK 6.7 million in 2016 and comes from our closed activities in Finland and Ukraine.

### Other comprehensive income

Other comprehensive income was a positive DKK 8.3 million, against a negative DKK 60.8 million in 2016. The main influence being the profit of DKK 7.7 million on movements in foreign exchange less deferred tax. Further details can be found in the section "Statement of changes in equity".

### Western Europe

Revenue in Western Europe was DKK 1,220 million, a decrease of DKK 40 million or 3% on 2016. Expressed in local currency, revenue was up 1% on 2016. Revenue in local currency was driven by higher prices, particularly in the UK, offset by lower sales volumes. In the UK the reduction in volume was mostly planned and in Germany the reduction was market driven, and the development in price was not satisfactory. Revenue increased in the Nordic countries and Benelux.

EBITDA was DKK 167.8 million, against DKK 186.4 million in 2016. The decrease was mainly due to special items which amounted to DKK 26.5 million. Special items mainly related to the extra transportation costs where product has been brought in from Poland 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. Higher selling prices were offset by lower sales volumes and adverse currency, which had an impact of around DKK

10 million. Excluding special items and the impact from currency EBITDA was up on 2016 by 10%.

Profit before tax was DKK 109.6 million, against DKK 128.2 million in 2016, a reduction of DKK 18.6 million caused by special items and currency.

**Eastern Europe**
Revenue in Eastern Europe was DKK 402 million, an increase of DKK 51 million on 2016. Expressed in local currency revenue was up 10% on 2016.

In Poland, both sales volumes and revenue were significantly higher than in 2016. Strong market conditions led to price increases and good production utilization.

In Russia, sales volumes in 2017 was adverse to 2016 due to lower market activity and a strategic move to try and increase prices which unfortunately led to lost market share.

EBITDA was DKK 48.4 million, against DKK 28.9 million in 2016, an increase of DKK 19.5 million or 67%. Special items of DKK 3.7 million consists of the cost of closed down factories and transaction costs related to the polish acquisition. In 2016 special items of positive DKK 3.3 million which came from profit on sale of assets offset by restructuring costs. The impact from exchange rates was positive and amounted to DKK 2.2 million. Excluding special items and the impact from currency EBTDA was up on 2016 by 73%.

Profit before tax was DKK 8.6 million, against a loss of DKK 23.1 million in 2016, an increase of DKK 31.7 million. The increase comes from Poland slightly offset by a small reduction from Russia.

**Eliminations and unallocated items**
Unallocated net expenses amounted to DKK 2.6 million in 2017, a reduction of DKK 1.4 million on 2016.

## Cash flow

**Operating activities**
Cash flow from operating activities was DKK 83.3 million, against DKK 143.1 million in 2016. The reduction compared to last year was as a result of the planned increase in stock in the UK due to the Borough Green factory upgrade.

**Investing activities**
Net investments of DKK 144.2 million were made during 2017, against DKK 75.0 million in 2016. The increased investing activities is a result of planned increased capital expenditure due to the Borough Green factory upgrade, payment of the last deferred payment in relation to the acquisition of Groupa Prefabet (acquired in 2015) and sale of assets in 2016.

**Free cash flow**
Free cash flow was negative of DKK 60.9 million, against positive DKK 68.1 million in 2016.

**Financing activities**
Financing activities increased by DKK 66.0 million, against a reduction of 110.0 million in 2016, this as a result of above mentioned effects.

## Balance sheet

The balance sheet total at 31 December 2017 was DKK 1,327 million, against DKK 1,189 million at 31 December 2016.

**Financing**
Net interest-bearing debt totaled DKK 459 million on 31 December 2017, up DKK 73 million on 31 December 2016. The increase has come from stock building in the UK, increased capital expenditure and the last deferred payment for Grupa Prefabet acquired in 2015. The debt-to-EBITDA ratio was 2.2 compared to 1.8 in 2016.

**Equity**
H+H's equity increased by DKK 100 million in 2017. The profit for the period increased equity by DKK 89.6 million, while foreign exchange adjustments of investments in subsidiaries less deferred tax increased equity by DKK 7.7 million, largely driven by the increase in the PLN exchange rate offset by the RUB exchange rate. Adjustments to pension obligations in the UK net deferred tax increased equity by DKK 0.6 million. Refer to note 19 "Pension obligations" for further analysis and sensitivity of the net pension obligations.

Other adjustment of positive DKK 2.0 million relates to the matching share program. Refer to the notes 3 "Staff costs" and 18 "Share capital and treasury shares" for further information.

## Management review for the parent company

Profit/loss for the year 2017 resulted in a profit of DKK 155.8 million (2016: loss of DKK 53.1 million), this due value adjustments of investments in subsidiaries and intercompany loans.

## Events after the balance sheet date

On 28th February 2018 we announced the closing of the acquisition of "HDKS". The purchase price of HDKS amounts to DKK 818 million and has been paid in cash. Estimated 2017 sales is DKK 500 million with an EBITDA of DKK 100 million. The business employs approximately 200 full-time employees.

The acquisition of Grupa Silikaty Sp. Z.o.o in Poland has been approved by the anti-trust authorities and closing of the acquisition awaits approval from an agricultural agency.

Refer to note 27 "Events after the balance sheet date" for further information.

## Comments relating to Q4 2017

### Revenue

Fourth-quarter revenue increased by 6% in local currencies (organic growth) and increased by 7% to DKK 369.6 million.

### Gross margin

The overall gross margin in the fourth quarter was 29.5% against 24.3% in 2016. The increase was driven by a combination of higher selling prices, good production recovery and stock adjustments.

### EBITDA

EBITDA in the fourth quarter was DKK 60.9 million before special items (2016: 44.5 million) and DKK 49.7 million after special items (2016: DKK 50.6 million).

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

### Operating profit (EBIT)

Operating profit for the fourth quarter was DKK 29.5 million against DKK 23.7 million in 2016, an increase of DKK 5.8 million.

Operating profit before special items for the fourth quarter was DKK 40.7 million against DKK 17.5 million in 2016, an improvement of DKK 23.2 million.

### Profit before tax from continuing operations

Profit before tax from continuing operations was DKK 24.2 million against DKK 17.6 million in 2016, an increase of DKK 6.6 million.

### Operating activities

Cash flow from operating activities was DKK 54.1 million against DKK 18.7 million in 2016, an increase of DKK 35.4 million. The increase was a result of working capital phasing primarily driven by trade debtors and trade payables.

### Investing activities

Net investments of DKK 71.6 million were made during the fourth quarter, predominantly from the UK. In the fourth quarter of 2016, net investments totaled DKK 26.1 million.

### Cash flow

Fourth-quarter free cash flow was negative DKK 17.5 million, against negative DKK 7.4 million in the same period of 2016.

### Western Europe

Fourth-quarter revenue in Western Europe decreased by 1% in local currencies (organic growth) and decreased by 1% in DKK to DKK 276.8 million. In Western Europe sales volumes were lower than last year and prices were higher.

Fourth-quarter EBITDA was DKK 15.5 million, against DKK 27.4 million in 2016, a decrease of DKK 11.9 million, mainly influenced by special items.

Fourth-quarter EBITDA before special items was DKK 27.9 million, against DKK 28.1 million in 2016, a decrease of DKK 0.2 million.

Fourth-quarter loss before tax was DKK 1.5 million, against a profit DKK 10.0 million in 2016, a decrease of DKK 11.5 million, this mainly due to the special items.

### Eastern Europe

Fourth-quarter revenue in Eastern Europe increased by 34% in local currencies (organic growth) and by 41% in Danish kroner to DKK 92.9 million. In Eastern Europe sales volumes were higher, but mainly driven by Poland where prices were also significantly higher than last year.

Fourth-quarter EBITDA was DKK 8.1 million, against DKK 1.9 million in 2016, an increase of DKK 6.2 million mainly due to the due to increase in Poland.

Fourth-quarter EBITDA before special items was DKK 6.8 million, against negative DKK 5.0 million in 2016, an increase of DKK 11.8 million mainly due to the due to increase in Poland.

Fourth-quarter loss before tax was DKK 1.7 million, against a loss of DKK 14.0 million in 2016 an improvement of DKK 12.3 million.

# Outlook for 2018 and updated long-term financial targets

## Outlook for 2018

- Growth before acquisitions and measured in local currencies is expected to be around 5%.
- EBITDA before special items is expected to be DKK 350-390 million.
- Approximately DKK 25-30 million cost are expected to be incurred as a result of the Borough Green factory upgrade and resulting need to import products from sister companies. The increased transportation costs will be expensed at the point of sale and treated as a special item.
- Approximately DKK 35 million for transaction and integration costs for HDKS will be expensed as special items.
- Investments excluding mergers, acquisitions and divestments are expected to be in the region of DKK 150 million of which approximately DKK 35 million relates to an investment required at one of the HDKS plants damaged by fire during the acquisition process. A similar amount was covered by a reduction in the purchase price.

## Assumptions for the outlook for 2018

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

- Continuous economic growth in our geographical footprint.
- The commercial and operational excellence programmes continue to deliver improvements.
- Exchange rates, primarily for GBP, EUR, PLN and RUB, hold at their mid-March 2018 levels.
- Energy and raw material prices rise only in line with inflation from their mid-March 2018 levels.
- The geopolitical situation does not result in changed market conditions.
- Acquitision and integration of the calcium silicate business and upgrade of the Borough Green factory according to schedule.

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 in many of H+H's geographical markets
- Developments in the market for building materials
- Distribution factors
- Weather conditions
- Geopolitical developments

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

### LONG-TERM FINANCIAL TARGETS

| | TARGETS | 2017 RESULTS | NEW TARGETS |
|---|---|---|---|
| EBIT MARGIN * (Operating margin) | 8-10% | 10% | at least 11% |
| ROIC (return on invested capital) | min 12% | 16% | at least 12% |
| FINANCIAL GEARING | | | 1-2 |

* before special items

### Disclaimer

This annual report contains forward-looking statements.

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

# 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 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 | 2017 | 2016 | Scenario | Action |
|---|---|---|---|---|
| **Market** | | | With significant operational gearing and 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 have an effect on sales unless made up by other H+H factories. | 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 on the cost of transportation and price changes for cement, sand and lime. | All critical raw materials have dual sourcing, and substitution of suppliers can be implemented relatively easily (although at a cost). The cost of energy consumption in production corresponds to 5% of revenue, so we monitor prices closely. |
| **Competition and pricing** | | | H+H is the second-largest player in the European aircrete market. This market position could be endangered by mergers between competitors. Excess production capacity in some markets could result in a price war. | 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 primarily in GBP and EUR, while its borrowings are primarily in DKK, PLN and EUR. Any developments in the financial markets, especially in GBP, 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 459 million at the end of 2017 and H+H will remain dependent on external financing in the future. After the balance sheet date, H+H has closed the acquisition of HDKS for a purchase price of DKK 818 million. The associated financing of DKK 850 million runs until 31 January 2019. | Amendments to the banking agreement has been entered in June and December 2017, this to facilitate the acquired calcium-silicate businesses located in Germany, Poland and Switzerland. H+H intends to issue new shares and the proceeds will be used to reduce the short-term financing and balance the debt gearing. The success of this refinancing is critical. Furthermore, the bank can terminate the facilities prematurely if H+H fails to meet certain financial covenants. |
| **Integration of acquired companies** | | | H+H acquired "HDKS" on 28th February 2018 and expects to close the acquisition of Grupa Silikaty in March 2018. The acquisitions are material in size for H+H. | H+H will ensure a successful integration by employ and hire sufficient resources to effectively manage the integration along with the existing day to day business. |
| **UK pensions** | | | The UK defined-benefit pension scheme is closed but has accrued benefits and a pension deficit. Each year the pension assets and liability are revalued. A change in the discount rate of 0.1 percentage point would change the obligations by approx. DKK 13 million. A change in the rate of inflation would change the obligation by approx. DKK 7 million, both affecting equity. | The deficit is revalued at least once a year by an external specialist firm. Each quarter, an estimation is made of the movement in deficit based on changes in the key assumptions. The cash flow impact is normally limited to triennial valuations. The investment strategy, which is the responsibility of the UK pension fund trustees, can be tailored to reduce volatility. |

# Corporate social responsibility (CSR) and corporate governance

## Corporate social responsibility (CSR)

H+H develops, manufactures and sells aircrete and CSU products for the building industry in Northern and Central Europe and Northwest Russia and strives to do so sustainably from a commercial, health & safety and environmental perspective. This goal of doing business in a sustainable way is an integral part of all of H+H's activities.

Aircrete is a particularly eco-friendly building material, not only because of its excellent thermal insulation properties but also because the production of aircrete is relatively easy on the environment, and, at the end of its life, aircrete can be recycled into new aircrete products or used for other purposes, such as catlitter and road fill. The primary materials used in the production of aircrete are cement, lime and sand, all of which are based on abundantly available natural resources. At some of H+H's production facilities, PFA (pulverised fuel ash, a residual product from coal-fired power stations) is used as a raw material instead of sand.

Similarly, CSU is made from lime and sand only. The product has very good load bearing and acoustic properties as well as fire and moisture resistance and is a key component in multifamily housing projects.

### CSR policies

H+H has established a group CSR organisation. Furthermore, H+H has a general group-wide Code of Conduct in place as well as various underlying group policies concerning supplier conduct, competition law compliance, anti-corruption, health, safety & environment etc. The policies are implemented in the various H+H companies via online training and/or seminars, as well as awareness activities. In addition, an online whistleblower system enables H+H's employees, suppliers and customers to file reports on suspected non-compliance.

### CSR statement for 2017

Pursuant to section 99a of the Danish Financial Statements Act, H+H International A/S publishes an annual statement on its CSR policies, actions taken to implement these policies and the results of these actions. The 2017 statement forms part of management's review and can be found on the company's website at www.HplusH.com/csr-statement.

### Future CSR reporting

H+H intends to re-assess the most material impact on the environment from its operations following its recent acquisitions.

As an outcome general alignment of data to support more structured reporting processes is anticipated and reporting on CSR KPIs is expected to become an integral part of the annual report for 2018.

The main KPIs will be aligned with the recommendations from the Danish Finance Society.

## Recommendations on corporate governance

As a company listed on Nasdaq Copenhagen, H+H International A/S is subject to its Rules for issuers of shares, including an obligation to comply with the Recommendations on Corporate Governance issued by the Danish Committee on Corporate Governance or to explain why not and describe any alternative implemented instead. The recommendations applicable for 2017 are the recommendations as updated in November 2014 which can be found on the Committee's website: www.corporategovernance.dk. In accordance with the recommendations, H+H International A/S has prepared a report on the company's compliance with the recommendations in 2017. The report forms part of the company's Statutory annual corporate governance statement under section 107b of the Danish Financial Statements Act, which can be viewed on the company's website at www.HplusH.com/governance-statement. H+H International A/S essentially complies with the recommendations, with the only deviations for 2017 being:

- H+H International A/S has not set any objectives or produced any policy to ensure diversity at management level in the company and this is a departure from recommendation 2.1.6 of the Recommendations on Corporate Governance. However, not to set objectives or have a policy is in line with the exemption granted in section 139a(6) of the Companies Act to small organisations with less than 50 employees in respect of the obligation to set objectives and produce a policy to ensure diversity, including a higher proportion of the underrepresented gender. The decision not to establish any objectives or policy with regard to diversity is due to the fact that there are less than 15 employees in H+H International's organisation, meaning there are only limited or no changes in the organisation in a given year, which again makes it very difficult to effectively pursue any diversity objectives and policy within a meaningful time frame. That being said, H+H International's organisation is quite diverse in respect of skills, gender, age and nationality, since out of the current 11 employees (including the Executive Board), there are three women and eight men, three different nationalities and ages ranging from 30 to 65 years.

- The Board of Directors does not have a chairmanship with a Chairman and a Deputy Chairman and this is a departure from recommendation 2.3.1 of the Recommendations on Corporate Governance. The decision to have only a Chairman was made due to the fact that even though the challenges and opportunities relating to the management of the H+H Group may be many at times, the management of H+H is not so complex that it necessarily requires a Deputy Chairman to assist the Chairman. The Board has put in place procedures to ensure that the Board can function in case the Chairman cannot attend meetings on a temporary basis.

- The Articles of Association do not stipulate a retirement age for the members of the Board of Directors and this is a departure from recommendation 3.1.4 of the Recommendations on Corporate Governance. The Board of Directors considers a fixed retirement age to be arbitrary and, instead, wants the Board of Directors in its nominations and the general meeting in its election of board members to be able to make a decision on the basis of an overall assessment of the candidates in which age is just one of several parameters.

- The Remuneration Committee has not recommended a remuneration policy for H+H International A/S in general and this is a departure from recommendation 3.4.7 of the Recommendations on Corporate Governance. With only 11 employees (including the Executive Board) in H+H International A/S, the Remuneration Committee has only recommended a remuneration policy applicable for the Board of Directors and the Executive Board, but not for the company in general since such policy would only apply to 9 employees with very different areas and levels of responsibility and functions.

### Diversity at management level

H+H International A/S's organisation represents different skills, nationalities, ages, gender and international experience. Recruitment for management positions takes place with an emphasis on skills and experience, and without discrimination on the grounds of age, gender, nationality etc.

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 shall be reached no later than at the annual general meeting in 2019. The target is in line with the Danish Business Authority's Guidelines on target figures, policies and reporting on the gender composition of management issued in March 2016. At the end of 2017 the Board of Directors consisted of six shareholder-elected members out of which one was a woman.

One new additional member was elected to the Board of Directors at the annual general meeting in 2017. The expansion of the Board was made with the aim of strengthening the Board's skills s and experience within the German building materials industry. The recruitment was aimed at both women and male candidates, and the Board decided to propose the most qualified candidate as new board member, and this candidate was male.

The management team at H+H International A/S is relatively diverse, since even though it consists of four men, there are only two Danish nationals with the other two management members being British and with two of them having extensive international business experience and having lived abroad earlier in their career. The management teams at H+H International A/S's subsidiaries are also generally diverse with people of different ages and genders working as managers within production, procurement, finance, sales, marketing & HR.

# Shareholder information

### Share capital and shareholders

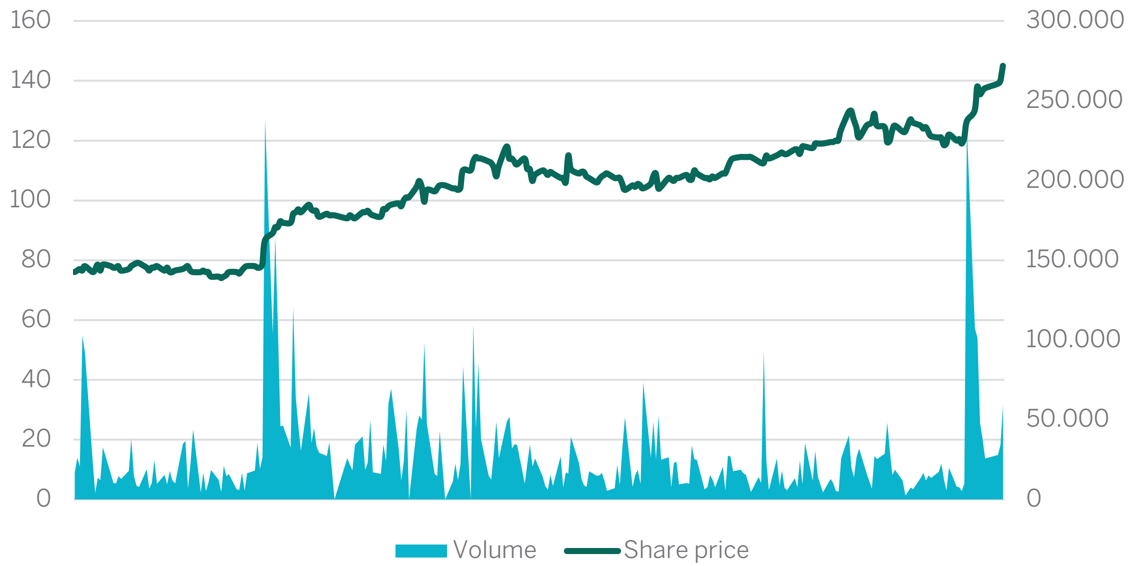
H+H International A/S has share capital with a nominal value of DKK 107,900,190 carrying a total of 10,790,019 votes and divided into 10,790,019 shares, each with a nominal value of DKK 10and carrying one vote.

As at 1 January 2018, H+H International A/S had 4,234 registered shareholders (corresponding to 84% of the share capital), including 193 foreign shareholders, and the company held 53,174 treasury shares. On the same date, H+H International A/S had two major shareholders each holding more than 5% of its shares: Nordea Fund Management, subsidiary of Nordea Funds OY, Finland and Handelsbanken Fonder AB, Sweden; and one majer shareholder holding more than 10% of its shares: ATP.

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.

### Capital structure

The Board of Directors and Executive Board regularly evaluate the company's capital structure on the basis of expected cash flow and in the light of the company's earnings, debt, loan covenants etc. with a view to ensuring an appropriate balance between adequate future financial flexibility and a reasonable return to shareholders.




*Development in share price and trading volume during 2017*

As mentioned in the Chairman's letter it is intended to issue new shares with net proceeds of around DKK 500 million. The proceeds will be used to reduce the interest-bearing debt due to the latest acquisitions and to strengthen the balance sheet. Proposal for a share issue authorization will be submitted for the coming annual general meeting. Assuming unchanged market conditions and that the proposal is accepted, the share emission will be executed shortly hereafter.

H+H International A/S had a solvency ratio of 28.4% at the end of 2017, compared with 23.3% at the end of 2016. The company's net interest-bearing debt totalled DKK 459 million at the end of 2017, compared with DKK 387 million at the end of 2016.

### Shares

H+H International A/S's shares are listed on Nasdaq Copenhagen in the Small Cap 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.

The company's share price increased by 91% to DKK 145 per share in 2017. By way of comparison, the OMXC25 gained 16% and the OMXC SmallCap index gained 12%. Turnover in 2017 was 6,920,775 shares at a total price of DKK 719 million.

### Dividends
Given the current capital structure of the company, the Board of Directors will recommend to the annual general meeting on 19 April 2018 that no dividend be paid for the 2017 financial year. It should also be noted that, under the terms of H+H International A/S's current loan agreement with Danske Bank A/S, the Board of Directors is subject to an obligation to the effect that they may not propose a resolution concerning the distribution of dividends for a given financial year if the net debt to EBITDA ratio exceeds 3.0x or would exceed this ratio upon distribution of the proposed dividend payment.

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

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

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

Relevant investor information is available on the company's website, www.HplusH.com. In 2017 the company held more than 25 investor meetings and published 10 company announcements. The company is covered by Danske Bank Markets

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

### Annual general meeting
The next annual general meeting will be held on 19 April 2018. 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 8 March 2018). 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.

## H+H shareholder information

### Financial calendar 2018

| | |
|---|---|
| 14 Mar. | Annual Report 2017 |
| 19 Apr. | Annual General Meeting |
| 17 May | Interim financial report Q1 |
| 16 Aug. | Interim financial report H1 |
| 15 Nov. | Interim financial report Q1-Q3 |

No. of shares: 10,790,019
Treasury shares: 53,174
Nominal value per share: DKK 10
Total nominal value: DKK 107,900,190

| | |
|---|---|
| Solvency ratio: | 28.4% |
| Earnings per share: | 8.4 |

# Board of Directors

The Board of Directors held eleven meetings in 2017, 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.

At the annual general meeting on 19 April 2018 the Board of Directors will propose re-election of Kent Arentoft, Stewart A Baseley, Pierre-Yves Jullien, Henriette Schütze and Volker Christmann and election of a new board member, Miguel Kohlmann. Miguel Kohlmann was born in 1962 and is a German and Brazilian citizen. He is Chairman of the board of directors in Logstor A/S, world leader in insulated pipe systems for the energy sector, and senior advisor to Nordic private equity fund Axcel as well as to the private equity groups, PAI Partners and Investcorp. He possesses global experience with leading international production companies, including production of building materials and materials for the construction, automotive and aerospace industry, in particular in Germany, Denmark and Austria. Miguel Kohlmann has 17 years of experience as CEO of large international production groups, being overall responsible for strategy, operations, sales & marketing etc., latest as CEO of Icopal A/S - world leading flat roof building materials producer. Søren Østergaard Sørensen does not seek re-election.

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.

# Board of Directors

**Kent Arentoft, Chairman**

Male. Born 1962. Danish. Chairman of the Board of Directors of H+H International A/S.

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

Indirectly holds 15,000 H+H shares via a company he controls. with no changes in his holding in 2017.

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 / Cembrit Holding A/S and DSVM Invest and subsidiaries.

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.

Holds 10,000 H+H shares, with no changes in his holding in 2017.

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).

Member of the board of directors of Fuerst Day Lawson Holdings Limited (UK) and four subsidiaries of Home Builders Federation (UK).

Senior Advisor with regard to Central and Eastern Europe to Highlander Partners L.P. (USA).
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.

Holds no H+H shares, with no changes in his holding in 2017.

Independent as defined in the Danish Recommendations on Corporate Governance.

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

**Other management positions and directorships**
Chairman of the board of directors of two companies in the Rockwool group.
Member of the board of directors of the FIW (Forschungsinstitut für Wärmtechnik)(Germany) and one company in the Rockwool group.
Managing director of six companies in the Rockwool group.
Member of the executive board of one company in the Rockwool group.

**Pierre-Yves Jullien**

Male. Born 1950.
French.
Professional board member.

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

Holds no H+H shares, with no changes in his holding in 2017.

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 (Saudi Arabia),

Vice president of the Danish Chamber of Commerce (Denmark) and member of the Danish Tunisian Chamber of Commerce (Denmark),

**Henriette Schütze**

Female. Born 1968.
Danish.
Executive director and CFO, Nordic Tankers Group.

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

Holds 531 H+H shares, with no changes in her holding in 2017.

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.

Member of the board of directors of BKR Carriers AS (Norway), BKR Tankers AS (Norway), Dania Ship Management Holding A/S, PKA Pension (The Health Care Professionals' Pension Fund) and the Royal Danish Theatre.

**Søren Østergaard Sørensen**

Male. Born 1958.
Danish.
Professional board member.

Joined the Board of Directors in November 2014. Member of the Audit Committee and the Nomination Committee.

Holds no H+H shares, with no changes in his holding in 2017.

Independent as defined in the Danish Recommendations on Corporate Governance.

Extensive international experience, including experience from Poland and Russia, within organisation and management, particularly within strategy development, M&A transactions, international sales and marketing as well as product development.

**Other management positions and directorships**
Chairman of the board of directors of Monark GmbH (Germany) and Hoyer Group A/S, B8 A/S.

Deputy chairman of Frese Holding A/S and three subsidiaries, and IAI Holding A/S and one subsidiary, EKF A/S.

Member of the board of directors of AVK Holding A/S and five subsidiaries, Exodraft A/S, DIS and Sanistål A/S.

# 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 programme where the participant may invest privately held H+H shares in the programme at a value of max. 10% 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 programme – 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 22,467 H+H shares, out of which 13,812 are invested in matching share incentive programmes. In 2017 a total of 13,467 H+H shares were granted under the programme and 6,000 H+H shares were sold to cover taxation of the grant.

**Background**

2004 – 2011: Trelleborg AB. President of global business unit with 10 subsidiaries in Europe, USA and Asia (2008 – 2011). Managing director of Trelleborg Sealing Solutions Helsingør A/S (2004 – 2008).

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.
CFO since 2014.
Member of the Executive Board since August 2016.

Currently holds 10,843 H+H shares, out of which 8,350 are invested in matching share incentive programmes. In 2017 a total of 3,345 H+H shares were granted under the programme and no H+H shares were sold.

**Background**

2009 – 2014: H+H UK Limited, Finance director

2004 – 2009: Marley Plumbing and Drainage Limited (part of the Aliaxis group), Finance and IT director

**Education**
B.A. (Hons) Degree, Chartered Management Accountant.

# Income statement

| | | Group | | Parent company | |
|---|---|---|---|---|---|
| Note | (DKK '000) | 2017 | 2016 | 2017 | 2016 |
| 2 | Revenue | 1,621,634 | 1,610,606 | 0 | 0 |
| 3, 16 | Production costs | (1,188,172) | (1,205,822) | 0 | 0 |
| | **Gross profit** | **433,462** | **404,784** | **0** | **0** |
| 3 | Sales and distribution costs | (101,809) | (104,171) | 0 | 0 |
| 3 | Administrative costs | (108,859) | (100,570) | (36,161) | (37,530) |
| 4 | Other operating costs | (14,584) | (4,817) | 0 | 0 |
| 5 | Other operating income | 3,770 | 18,422 | 31,500 | 37,976 |
| | **Profit/loss before depreciation, amortisation and financial items (EBITDA)** | **211,980** | **213,648** | **(4,661)** | **446** |
| 6 | Depreciation and amortisation | (77,705) | (82,629) | (70) | (1,750) |
| 7 | Impairment losses | 0 | (5,620) | 185,953 | (62,776) |
| | **Operating profit/loss (EBIT)** | **134,275** | **125,399** | **181,222** | **(64,080)** |
| 8 | Financial income | 1,497 | 1,245 | 25,176 | 17,677 |
| 9 | Financial expenses | (20,211) | (22,770) | (53,966) | (14,813) |
| | **Profit/loss from continuing operations before tax** | **115,561** | **103,874** | **152,432** | **(61,216)** |
| 10 | Tax on profit from continuing operations | (20,650) | (7,968) | 3,324 | 8,137 |
| | **Profit/loss for the year from continuing operations** | **94,911** | **95,906** | **155,756** | **(53,079)** |
| 24 | Loss for the year from discontinued operations | (5,291) | (6,721) | 0 | 0 |
| | **Profit/loss for the year** | **89,620** | **89,185** | **155,756** | **(53,079)** |

| | | | | | |
|---|---|---|---|---|---|
| 12 | Earnings per share (EPS-Basic) (DKK) | 8.35 | 8.30 | | |
| 12 | Diluted earnings per share (EPS-D) (DKK) | 8.35 | 8.30 | | |
| 12 | Earnings per share from continuing operations (EPS-Basic) (DKK) | 8.98 | 8.93 | | |
| 12 | Diluted earnings per share from continuing operations (EPS-D) (DKK) | 8.98 | 8.93 | | |

# Statement of comprehensive income

| | | Group | | Parent company | |
|---|---|---|---|---|---|
| Note | (DKK '000) | 2017 | 2016 | 2017 | 2016 |
| | **Profit/loss for the year** | **89,620** | **89,185** | **155,756** | **(53,079)** |
| | **Other comprehensive income:** | | | | |
| | Items that will not be reclassified subsequently to the income statement: | | | | |
| | Actuarial losses and gains, see note 19 | 622 | (93,286) | 0 | 0 |
| | Tax on actuarial losses and gains | (49) | 15,587 | 0 | 0 |
| | | **573** | **(77,699)** | **0** | **0** |
| | Items that may be reclassified subsequently to the income statement: | | | | |
| | Foreign exchange adjustments, foreign companies | 10,895 | 25,370 | 0 | 0 |
| | Tax on foreign exchange adjustments, foreign companies | (3,211) | (8,462) | 0 | 0 |
| | | **7,684** | **16,908** | **0** | **0** |
| | **Other comprehensive income after tax** | **8,257** | **(60,791)** | **0** | **0** |
| | **Total comprehensive income for the year** | **97,877** | **28,394** | **155,756** | **(53,079)** |

# Balance sheet at 31 December 2017

## Assets

| Note | (DKK '000) | Group 2017 | Group 2016 | Parent company 2017 | Parent company 2016 |
|---|---|---|---|---|---|
| | Goodwill | 52,187 | 50,843 | 0 | 0 |
| | Other intangible assets | 4,863 | 4,230 | 23 | 51 |
| 13 | **Intangible assets** | **57,050** | **55,073** | **23** | **51** |
| | Land and buildings | 336,206 | 331,963 | 0 | 0 |
| | Plant and machinery | 313,379 | 327,906 | 0 | 0 |
| | Fixtures and fittings, tools and equipment | 84,274 | 93,732 | 295 | 0 |
| | Property, plant and equipment under construction | 110,307 | 65,792 | 0 | 0 |
| 13 | **Property, plant and equipment** | **844,166** | **819,393** | **295** | **0** |
| 14 | Deferred tax assets | 28,417 | 26,880 | 10,000 | 8,036 |
| 15 | Equity investments in subsidiaries | 0 | 0 | 963,671 | 751,852 |
| | Receivables from subsidiaries | 0 | 0 | 217,541 | 256,216 |
| | **Other non-current assets** | **28,417** | **26,880** | **1,191,212** | **1,016,104** |
| | **Total non-current assets** | **929,633** | **901,346** | **1,191,530** | **1,016,155** |
| 16 | Inventories | 267,560 | 182,439 | 0 | 0 |
| 17 | Trade receivables | 74,115 | 59,161 | 0 | 0 |
| | Tax receivable | 463 | 343 | 0 | 0 |
| 17 | Other receivables | 32,798 | 31,844 | 11,509 | 13,205 |
| | Prepayments | 8,964 | 5,116 | 529 | 136 |
| | Cash | 13,054 | 8,259 | 814 | 12 |
| | **Current assets** | **396,954** | **287,162** | **12,852** | **13,353** |
| 24 | Assets held for sale | 0 | 0 | 0 | 0 |
| | **Total current assets** | **396,954** | **287,162** | **12,852** | **13,353** |
| | **Total assets** | **1,326,587** | **1,188,508** | **1,204,382** | **1,029,508** |

## Equity and liabilities

| Note | (DKK '000) | Group 2017 | Group 2016 | Parent company 2017 | Parent company 2016 |
|---|---|---|---|---|---|
| | Share capital | 107,902 | 107,902 | 107,902 | 107,902 |
| | Translation reserve | (219,491) | (227,179) | 0 | 0 |
| | Retained earnings | 488,989 | 396,781 | 650,877 | 493,100 |
| | **Equity** | **377,400** | **277,504** | **758,779** | **601,002** |
| 19 | Pension obligations | 150,199 | 171,315 | 0 | 0 |
| 20 | Provisions | 14,455 | 24,000 | 18,437 | 31,300 |
| 14 | Deferred tax liabilities | 0 | 0 | 0 | 0 |
| 25 | Deferred payment, acquisition of subsidiary | 0 | 0 | 0 | 0 |
| | Lease liability | 2,702 | 0 | 0 | 0 |
| 21 | Credit institutions | 468,715 | 394,920 | 354,996 | 306,220 |
| | **Non-current liabilities** | **636,071** | **590,235** | **373,433** | **337,520** |
| | Trade payables | 216,466 | 188,153 | 4,194 | 4,699 |
| | Lease liability | 799 | 0 | 0 | 0 |
| | Income tax | 7,441 | 9,338 | 0 | 0 |
| | Payables to subsidiaries | 0 | 0 | 62,821 | 79,424 |
| 25 | Deferred payment, acquisition of subsidiary | 0 | 33,537 | 0 | 0 |
| 20 | Provisions | 3,055 | 6,276 | 0 | 0 |
| | Other payables | 85,355 | 83,465 | 5,155 | 6,863 |
| | **Current liabilities** | **313,116** | **320,769** | **72,170** | **90,986** |
| 24 | Liabilities relating to assets held for sale | 0 | 0 | 0 | 0 |
| | **Total current liabilities** | **313,116** | **320,769** | **72,170** | **90,986** |
| | **Total liabilities** | **949,187** | **911,004** | **445,603** | **428,506** |
| | **Total equity and liabilities** | **1,326,587** | **1,188,508** | **1,204,382** | **1,029,508** |

# Cash flow statement

| Note | (DKK '000) | Group 2017 | Group 2016 | Parent company 2017 | Parent company 2016 |
|---|---|---|---|---|---|
| | Operating profit/loss | 134,275 | 125,399 | 181,222 | (64,080) |
| | Financial income, received | 1,119 | 1,245 | 14,059 | 16,190 |
| | Financial items, paid | (19,737) | (22,083) | (9,490) | (11,513) |
| | Depreciation, amortisation and impairment losses | 77,705 | 88,250 | (185,883) | 64,526 |
| | Gain on disposal of property, plant and equipment | (945) | (13,097) | 0 | (4,476) |
| | Loss on disposal of property, plant and equipment | 1,496 | 0 | 0 | 0 |
| | Other adjustments | 1,493 | 843 | 2,018 | (339) |
| | Change in inventories | (81,414) | (9,496) | 0 | 0 |
| | Change in receivables | (18,048) | (8,501) | 1,303 | (3,719) |
| | Change in trade payables and other payables | 23,580 | 23,120 | (2,211) | 2,267 |
| | Change in provisions | (15,638) | (21,254) | 0 | 0 |
| | Joint taxation contribution received | 0 | 0 | 1,628 | 0 |
| | Income tax paid | (20,604) | (21,368) | (267) | 0 |
| | **Operating activities** | **83,282** | **143,058** | **2,379** | **(1,144)** |
| | Sale of property, plant and equipment | 803 | 39,846 | 0 | 4,476 |
| | Capital contributions to subsidiaries | 0 | 0 | (25,866) | (545) |
| | Deferred payment, prior years acquisition of subsidiaries | (35,066) | (31,497) | 0 | 0 |
| | Acquisition of property, plant and equipment and intangible assets | (109,933) | (83,330) | (337) | 0 |
| | **Investing activities** | **(144,196)** | **(74,981)** | **(26,203)** | **3,931** |
| | **Free cash flow** | **(60,914)** | **68,077** | **(23,824)** | **2,787** |

| Note | (DKK '000) | Group 2017 | Group 2016 | Parent company 2017 | Parent company 2016 |
|---|---|---|---|---|---|
| | Change in intra-group balances | 0 | 0 | (35,268) | 30,938 |
| | Dividend from subsidiaries | 0 | 0 | 11,117 | 1,487 |
| 21 | Change in borrowings | 65,986 | (104,126) | 48,777 | (29,658) |
| | Acquisition of treasury shares | 0 | (5,560) | 0 | (5,560) |
| | **Financing activities** | **65,986** | **(109,686)** | **24,626** | **(2,793)** |
| 24 | **Cash flow from discontinued operations** | **(129)** | **171** | **0** | **0** |
| | **Cash flow for the year** | **4,943** | **(41,438)** | **802** | **(6)** |
| | Cash and cash equivalents at 1 January | 8,259 | 51,547 | 12 | 18 |
| | Foreign exchange adjustments of cash and cash equivalents | (148) | (1,850) | 0 | 0 |
| | **Cash and cash equivalents at 31 December** | **13,054** | **8,259** | **814** | **12** |
| | Cash and cash equivalents at 31 December, continuing operations | 13,054 | 8,259 | | |
| | Cash and cash equivalents at 31 December, discontinued operations | 0 | 0 | | |
| | | **13,054** | **8,259** | | |

# Statement of changes in equity

| (DKK '000) | Group | | | |
|---|---|---|---|---|
| | Share capital | Translation reserve | Retained earnings | Total |
| **Equity at 1 January 2016** | **107,902** | **(244,087)** | **391,193** | **255,008** |
| Profit/loss for the year | 0 | 0 | 89,185 | 89,185 |
| **Other comprehensive income:** | | | | |
| Foreign exchange adjustments, subsidiaries | 0 | 25,370 | 0 | 25,370 |
| Actuarial gains/losses on pension plans | 0 | 0 | (93,286) | (93,286) |
| Tax on other comprehensive income | 0 | (8,462) | 15,587 | 7,125 |
| **Net gains recognised directly in equity** | **0** | **16,908** | **(77,699)** | **(60,791)** |
| **Total comprehensive income** | **0** | **16,908** | **11,486** | **28,394** |
| Issue of ordinary shares (980,019 shares) | 0 | 0 | 0 | 0 |
| Acquisition of treasury shares | 0 | 0 | (5,560) | (5,560) |
| Share-based payment | 0 | 0 | (338) | (338) |
| **Total changes in equity** | **0** | **16,908** | **5,588** | **22,496** |
| **Equity at 31 December 2016** | **107,902** | **(227,179)** | **396,781** | **277,504** |
| | | | | |
| Profit/loss for the year | 0 | 0 | 89,620 | 89,620 |
| **Other comprehensive income:** | | | | |
| Foreign exchange adjustments, subsidiaries | 0 | 10,895 | 0 | 10,895 |
| Actuarial gains/losses on pension plans | 0 | 0 | 622 | 622 |
| Tax on other comprehensive income | 0 | (3,211) | (49) | (3,260) |
| **Net gains recognised directly in equity** | **0** | **7,684** | **573** | **8,257** |
| **Total comprehensive income** | **0** | **7,684** | **90,193** | **97,877** |
| Acquisition of treasury shares | 0 | 0 | 0 | 0 |
| Share-based payment | 0 | 0 | 2,019 | 2,019 |
| **Total changes in equity** | **0** | **7,684** | **92,212** | **99,896** |
| **Equity at 31 December 2017** | **107,902** | **(219,495)** | **488,993** | **377,400** |

| (DKK '000) | Parent company | | | |
|---|---|---|---|---|
| | Share capital | Retained earnings | Proposed dividend | Total |
| **Equity at 1 January 2016** | **107,902** | **552,077** | **0** | **659,979** |
| Profit/loss for the year | 0 | (53,079) | 0 | (53,079) |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| **Total comprehensive income** | **0** | **(53,079)** | **0** | **(53,079)** |
| Issue of ordinary shares (980,019 shares) | 0 | 0 | 0 | 0 |
| Expenses in connection with share issue | 0 | 0 | 0 | 0 |
| Acquisition of treasury shares | 0 | (5,560) | 0 | (5,560) |
| Share-based payment | 0 | (338) | 0 | (338) |
| **Total changes in equity** | **0** | **(58,977)** | **0** | **(58,977)** |
| **Equity at 31 December 2016** | **107,902** | **493,100** | **0** | **601,002** |
| | | | | |
| Profit/loss for the year | 0 | 155,756 | 0 | 155,756 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| **Total comprehensive income** | **0** | **155,756** | **0** | **155,756** |
| Acquisition of treasury shares | 0 | 0 | 0 | 0 |
| Share-based payment | 0 | 2,021 | 0 | 2,021 |
| **Total changes in equity** | **0** | **157,777** | **0** | **157,777** |
| **Equity at 31 December 2017** | **107,902** | **650,877** | **0** | **758,779** |

# Notes to the consolidated financial statements

## Notes - financial statements



## Notes - income statement



## Notes balance sheet



## Notes - supplementary information

# Notes - Financial statements

## 1 General accounting policies

The annual report for the period 1 January - 31 December 2017 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 2017 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 2017 on 14 March 2018. The annual report for 2017 will be submitted to the shareholders of H+H International A/S for adoption at the annual general meeting on 19 April 2018.

**Basis of preparation**

The annual report is presented in DKK, which is the parent company's local currency, rounded to the nearest DKK 1,000. 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.

There have been no changes to the accounting policies compared with last year, except for implementation of new or revised and amended accounting standards. The accounting policies have been applied consistently to the financial year and the comparative figures.

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 2017. Based on an analysis carried out by H+H International A/S, the application of the new IFRSs has not had a material impact on neither the consolidated financial statements or the separate financial statements for the parent company in 2017, and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs.

**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 yet come into effect. 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.

**IFRS 9 'Financial Instruments'**

With effective date 1 January 2018, IFRS 9 Financial instruments changes the classification, measurement and impairment of financial assets, and introduces new rules for hedge accounting. H+H adopt the new standard on the required effective date and will not restate comparative information.

During 2017, H+H has performed an impact assessment of IFRS 9. Based on the current portfolio of financial assets and liabilities there will be 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 debt securities, loans and trade receivables, either on a 12-month or lifetime basis. H+H will apply 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 will not have 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 introduces 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 will adopt the new standard on the required effective date. H+H sells aircrete products primarily through our builder's merchant network.

The analysis of IFRS 15 was performed based on reviews of current types of contracts and product mix in order to determine the impact of the new standard. Overall, H+H expects no significant impact on the recognition and measurement of revenue.

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

**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 expected to have an impact on H+H International A/S as a lessee, as all leases (except for short-term leases and leases of low-value assets) have to be recognized in the balance sheet as a right-of-use asset and lease liability measured at the present value of future lease payments. The right-of-use asset is subsequently depreciated over the lease term in a similar way to other assets such as property, plant and equipment, and interest on the lease liability

# Notes - Financial statements

## 1 General accounting policies - continued

is calculated in a similar way to finance leases under IAS 17 Leases. Consequently, the change will also impact the presentation of the income statement and key performance indicators EBITDA and EBIT as well as balance sheet related ratios ROIC, NIBD and solvency.

At the reporting date, H+H had non-cancellable operating lease commitments of DKK 77 million which mainly consists of forklifts trucks, wheel loaders and cars as well as leases of offices and land and buildings. The only major lease is the Westbury lease in UK which consist of lease of land and buildings. The Westbury lease had at 31 December 2017 a remaining lease duration of 55 years with an operating lease commitment of DKK 52 million. The lease terms are currently being negotiated and H+H expects to enter a new lease contract which lowers the duration to 7 years. Negotiations are expected to be finalized before year-end 2018. The shortened lease duration of the Westbury lease have been used in the preliminary assessment. It has for all leases that expire in 2018 been assessed that they will be reentered into under the same conditions. Furthermore, it is expected that 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 preliminary assessment shows a positive impact of approximately DKK 15 million on EBITDA for the period 1 January - 31 December 2019 and an expected increase of the balance sheet by approximately DKK 45 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. The preliminary analysis does not include effects from "HDKS" which is acquired after the balance sheet date and Grupa Silikaty which is expected to be acquired in 2018. Refer to note 27 for further information on "Events after the balance sheet date".

In 2018, H+H will continue to assess the potential effect of IFRS 16 on its consolidated financial statements, including the impact from the change in the definition of the lease term, extension and termination options. As a result, no reliable amounts have been calculated at this point which are expected to have any quantitative effect on H+H's profit and cash flows.

H+H intends to 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.

# Notes - Financial statements

## 1 General accounting policies - continued

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

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

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

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

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

Cash flows relating to assets held under finance leases are recognised as payment of interest and repayment of debt. Cash and cash equivalents comprise cash and securities with a maturity of less than three months at the time of acquisition that are readily convertible to cash and are subject to an insignificant risk of changes in value.

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.

## 1 General accounting policies - continued

### Financial ratios

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

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

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

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

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.

### 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

# Notes - Income statement

## 2 Segment information

| | | | Group | | | | | |
|---|---|---|---|---|---|---|---|---|
| (DKK million) | | | 2017 | | | | | |
| | Western Europe | | | Eastern Europe | | | Total | |
| | Production companies | Sales companies | Western Europe, total | Production companies | Sales companies | Eastern Europe, total | Dis-continued operations* | Reporting segments |
| Revenue, external | 966.8 | 253.1 | 1,219.9 | 401.7 | 0.0 | 401.7 | 0.0 | 1,621.6 |
| Revenue, internal | 124.7 | 0.0 | 124.7 | 35.1 | 0.0 | 35.1 | 0.0 | 159.8 |
| EBITDA | 147.3 | 20.5 | 167.8 | 48.4 | 0.0 | 48.4 | (2.8) | 213.4 |
| Depreciation | (47.1) | (0.8) | (47.9) | (29.7) | 0.0 | (29.7) | 0.0 | (77.6) |
| EBITA | 100.2 | 19.7 | 119.9 | 18.7 | 0.0 | 18.7 | (2.8) | 135.8 |
| Impairment losses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating profit (EBIT) | 100.2 | 19.7 | 119.9 | 18.7 | 0.0 | 18.7 | (2.8) | 135.8 |
| Financial income | 3.0 | 0.4 | 3.4 | 1.1 | 0.0 | 1.1 | 0.0 | 4.5 |
| Financial expenses | (12.8) | (0.9) | (13.7) | (11.2) | 0.0 | (11.2) | (2.5) | (27.4) |
| Profit/loss before tax** | 90.4 | 19.2 | 109.6 | 8.6 | 0.0 | 8.6 | (5.3) | 112.9 |
| Non-current assets | 485.9 | 3.9 | 489.8 | 450.2 | 0.0 | 450.2 | 0.4 | 940.4 |
| Investments in intangible assets and property, plant and equipment | 87.3 | 1.1 | 88.4 | 21.2 | 0.0 | 21.2 | 0.0 | 109.6 |
| Investments in subsidaries | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Assets | 769.5 | 64.7 | 834.2 | 542.2 | 0.0 | 542.2 | 0.7 | 1,377.1 |
| Equity | 291.5 | 23.8 | 315.3 | 181.1 | 0.0 | 181.1 | (84.6) | 411.8 |
| Liabilities | 478.0 | 40.9 | 518.9 | 361.1 | 0.0 | 361.1 | 85.5 | 965.5 |
| Average full-time equivalent staff | 438 | 43 | 481 | 569 | 0 | 569 | 1 | 1,051 |

| | | | Group | | | | | |
|---|---|---|---|---|---|---|---|---|
| (DKK million) | | | 2016 | | | | | |
| | Western Europe | | | Eastern Europe | | | Total | |
| | Production companies | Sales companies | Western Europe, total | Production companies | Sales companies | Eastern Europe, total | Dis-continued operations* | Reporting segments |
| Revenue, external | 1,024.0 | 236.2 | 1,260.2 | 350.4 | 0.0 | 350.4 | 0.0 | 1,610.6 |
| Revenue, internal | 109.5 | 0.0 | 109.5 | 21.9 | 0.0 | 21.9 | 0.0 | 131.4 |
| EBITDA | 171.2 | 15.2 | 186.4 | 29.2 | (0.3) | 28.9 | (5.0) | 210.3 |
| Depreciation | (48.1) | (0.6) | (48.7) | (32.2) | 0.0 | (32.2) | 0.0 | (80.9) |
| EBITA | 123.1 | 14.6 | 137.7 | (3.0) | (0.3) | (3.3) | (5.0) | 129.4 |
| Impairment losses | 0.0 | 0.0 | 0.0 | (5.6) | 0.0 | (5.6) | 0.0 | (5.6) |
| Operating profit (EBIT) | 123.1 | 14.6 | 137.7 | (8.6) | (0.3) | (8.9) | (5.0) | 123.8 |
| Financial income | 2.4 | 0.7 | 3.1 | 1.6 | 0.0 | 1.6 | 0.0 | 4.7 |
| Financial expenses | (11.6) | (1.0) | (12.6) | (14.4) | (1.4) | (15.8) | (1.7) | (30.1) |
| Profit/loss before tax** | 113.9 | 14.3 | 128.2 | (21.4) | (1.7) | (23.1) | (6.7) | 98.4 |
| Non-current assets | 447.3 | 5.5 | 452.8 | 448.1 | 0.4 | 448.5 | 0.0 | 901.3 |
| Investments in intangible assets and property, plant and equipment | 63.1 | 0.9 | 64.0 | 19.3 | 0.0 | 19.3 | 0.0 | 83.3 |
| Investments in subsidarie | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Assets | 670.1 | 67.9 | 738.0 | 541.0 | 0.4 | 541.4 | 0.4 | 1,279.8 |
| Equity | 228.9 | 14.3 | 243.2 | 176.0 | (43.3) | 132.7 | (67.5) | 308.4 |
| Liabilities | 441.3 | 53.6 | 494.9 | 365.0 | 43.7 | 408.7 | 67.9 | 971.5 |
| Average full-time equivalent staff | 431 | 46 | 477.0 | 551 | 0.0 | 551.0 | 1 | 1,029 |

* See note 24.

** H+H's consolidated profit before tax. Transactions between segments are carried out at arm's length.

# Notes - Income statement

## 2 Segment information - continued

| | Group | |
|---|---|---|
| (DKK million) | 2017 | 2016 |
| Segment revenue for the reporting segments | 1,781.4 | 1,742.0 |
| Elimination of inter-segment sales | (159.8) | (131.4) |
| Revenue for discontinued operations | 0.0 | 0.0 |
| **Revenue** | **1,621.6** | **1,610.6** |
| | | |
| Segment profit/loss before tax for reporting segments | 118.2 | 105.1 |
| Non-allocated Group expenses, central functions | (2.6) | (1.2) |
| **Profit/loss before tax and discontinued operations** | **115.6** | **103.9** |
| | | |
| Total assets for reporting segments | 1,376.4 | 1,279.8 |
| Other non-allocated assets, eliminations and similar | (50.7) | (91.7) |
| Assets relating to discontinued operations | 0.9 | 0.4 |
| **Assets** | **1,326.6** | **1,188.5** |
| | | |
| Total liabilities for reporting segments | 1,051.0 | 903.6 |
| Other non-allocated obligations, eliminations and similar | (16.3) | (60.5) |
| Liabilities relating to discontinued operations | (85.5) | 67.9 |
| **Liabilities** | **949.2** | **911.0** |

Revenue in Denmark was DKK 164,253 thousand in 2017 (2016: DKK 150,914 thousand).

Non-current assets in Denmark at year-end 2017 amounted to DKK 3,284 thousand (2016: DKK 4,465 thousand).

### Key customers

One customer in the United Kingdom represented approx. 26% of the H+H Group's total revenue in 2017 (2016: approx. 27%). The following countries in the Group represent more than 10% of revenue or non-current assets.

| | Group | | | |
|---|---|---|---|---|
| (DKK million) | 2017 | | 2016 | |
| | Revenue | Non-current assets | Revenue | Non-current assets |
| UK | 704.9 | 202.5 | 758.8 | 175.5 |
| Continental Western Europe | 515.0 | 272.8 | 501.7 | 271.5 |
| Poland | 325.7 | 314.1 | 258.8 | 311.1 |
| Russia | 76.0 | 129.0 | 91.3 | 140.8 |
| Other countries and eliminations | 0.0 | 11.2 | 0.0 | 2.4 |
| | **1,621.6** | **929.6** | **1,610.6** | **901.3** |

When presenting information on geographical areas, information on revenue is based countries except for "Continental Western Europe" which comprise of Germany, Denmark, Sweden, Holland and Belgium. Revenue for Germany amounts to DKK 262 million (2016: DKK 265 million). All revenue relates to sales of goods.

### Accounting policies

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

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

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

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

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

# Notes - Income statement

## 3 Staff costs

| | Group | | Parent company | |
|---|---|---|---|---|
| (DKK '000) | 2017 | 2016 | 2017 | 2016 |
| Wages and salaries | 275,930 | 267,400 | 18,919 | 19,401 |
| Defined contribution plans, see note 19 | 10,843 | 9,286 | 0 | 0 |
| Share-based payment | 1,993 | 1,279 | 1,993 | 1,279 |
| Remuneration to the Board of Directors | 2,171 | 1,800 | 2,171 | 1,800 |
| Other staff costs | 45,908 | 41,849 | 113 | 120 |
| | **336,845** | **321,614** | **23,196** | **22,600** |
| **Staff costs are recognised as follows:** | | | | |
| Production costs | 202,281 | 189,527 | 0 | 0 |
| Sales and distribution costs | 76,279 | 76,234 | 0 | 0 |
| Administrative costs | 58,285 | 55,853 | 23,196 | 22,600 |
| | **336,845** | **321,614** | **23,196** | **22,600** |
| **Average full-time equivalent staff** | **1,062** | **1,041** | **11** | **12** |
| **Remuneration to the Executive Board:** | | | | |
| Michael Troensegaard Andersen (CEO): | | | | |
| Salary | 3,358 | 3,258 | 3,358 | 3,258 |
| Bonus | 1,041 | 1,183 | 1,041 | 1,183 |
| Share-based payment | 817 | 837 | 817 | 837 |
| | **5,216** | **5,278** | **5,216** | **5,278** |
| Ian Lea Perkins (CFO) (member since 18 August 2016): | | | | |
| Salary | 1,998 | 748 | 1,495 | 551 |
| Bonus | 675 | 208 | 675 | 208 |
| Share-based payment | 477 | 161 | 477 | 161 |
| Pension | 264 | 104 | 264 | 0 |
| | **3,414** | **1,221** | **2,911** | **920** |
| **Total** | **8,630** | **6,499** | **8,127** | **6,198** |
| **Remuneration to non-registered members of executive management:** | | | | |
| Salary | 3,031 | 3,966 | 3,031 | 3,720 |
| Bonus | 801 | 1,008 | 801 | 1,008 |
| Share-based payment | 75 | 219 | 75 | 219 |
| Pension | 0 | 157 | 0 | 0 |
| **Total** | **3,907** | **5,350** | **3,907** | **4,947** |

Group executive management consists of CEO Michael Troensegaard Andersen, CFO Ian Lea Perkins and two other executives.

### 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 2017 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 80% 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 26 April 2017 approved remuneration to the Chairman of the Board for 2017 of DKK 650,000 (2016: DKK 600,000) and remuneration to ordinary board members of DKK 325,000 (2016: DKK 300,000). 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.

# Notes - Income statement

## 3 Staff costs - continued

**Share-based incentive scheme**
**Matching share programme**
In September 2017, a matching share programme was launched for the Executive Board and certain key employees. The Executive Board and key employees invested a total of 11,578 H+H shares into the matching share programme initiated in 2017, which will trigger allocation of a further 34,734 H+H shares in April 2020 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. The value of the programme at inception in September 2017 was estimated at DKK 3.2 million and will be recognised as staff costs until the expiry of the vesting period in March 2020.

The fair value of the programme has been determined as the maximum number of shares which can be granted. The share price used in calculating the value of the programme is the average share price on the first 10 days of the trading window. The programme is partly hedged by purchase of treasury shares.

Matching share programmes similar to the one described above were launched also in May 2011, June 2012, May 2013, March 2014, April 2015 and March 2016.

The value of the 2014 programme at inception was DKK 1.0 million, which is recognised as staff costs until the expiry of the vesting period in March 2017. An adjustment related to the resignation of two participants has been made. Based on the financial statement for 2016, 16,812 matching shares were granted in March 2017 under the 2014 programme, equal to the estimated three matching shares per investment share.

The value of the 2015 programme at inception was DKK 2.5 million, which is recognised as staff costs until the expiry of the vesting period in March 2018. It was assessed during 2017 that the programme could trigger a maximum of three matching shares per investment share. An adjustment related to the resignation of two participants has been made. Based on the financial statement for 2017, 31,755 matching shares will be granted in March 2018 under the 2015 programme, equal to the estimated three matching shares per investment share.

The value of the 2016 programme at inception was DKK 2.7 million, which is recognised as staff costs until the expiry of the vesting period in March 2019. It was assessed during 2017 that the programme could trigger a maximum of three matching shares per investment share. An adjustment related to the resignation of two participants has been made. Based on the financial statement for 2017, 35,106 matching shares will be granted in March 2019 under the 2016 programme, equal to the estimated three matching shares per investment share.

Since the matching share programme was launched in 2011, four participants in the programme have left H+H of their own will, and the annual matching programmes in which they took part were therefore reversed in respect of their participation interests.

In November 2015, the Board of Directors decided that the company will hedge part of the future grant of shares. Consequently, the company bought 24,000 shares in November 2015 and 71,500 shares between March and June 2016. No shares has been bought by the company in 2017.

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

| (DKK '000) | 1 January 2017 | Additions or sold/settled during the year | 31 December 2017 | Market value* |
|---|---|---|---|---|
| **Board of Directors:** | | | | |
| Kent Arentoft (indirect ownership) | 15,000 | 0 | 15,000 | 2,175 |
| Stewart Antony Baseley | 10,000 | 0 | 10,000 | 1,450 |
| Volker Christmann | 0 | 0 | 0 | 0 |
| Pierre-Yves Jullien | 0 | 0 | 0 | 0 |
| Henriette Schütze | 531 | 0 | 531 | 77 |
| Søren Østergaard Sørensen | 0 | 0 | 0 | 0 |
| | 25,531 | 0 | 25,531 | 3,702 |
| **Executive Board:** | | | | |
| Michael Troensegaard Andersen | 15,000 | 7,467 | 22,467 | 3,258 |
| Ian Lea Perkins | 7,498 | 3,345 | 10,843 | 1,572 |
| **Total** | **48,029** | **10,812** | **58,841** | **8,532** |

*Calculation of the market value is based on the quoted share price of DKK 145.00 at 31 December 2017.

**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 option and share grants is measured at the fair value of the options and shares. For equity-settled share options, the grant date fair value is measured and recognised in the income statement as staff costs over the vesting period of the options and shares. The costs are set off directly against equity.

On initial recognition of share options and shares, the number of options and shares expected to vest is estimated, cf. the servicecondition described. The figure initially recognised is subsequently adjusted for changes in the estimate of the number of options and shares expected to vest, so that the total recognition is based on the actual number of vested options and shares. The fair value of options is estimated using an option-pricing model. The calculation takes account of the terms and conditions attached to the share options and shares granted.

# Notes - Income statement

## 4 Other operating costs

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| Exiting Westbury land lease and other costs related to Westbury | 1,623 | 142 | 0 | 0 |
| Acquisition-related costs | 10,173 | 3,779 | 0 | 0 |
| Loss on disposal of property, plant and equipment | 1,496 | 0 | 0 | 0 |
| Other | 1,292 | 896 | 0 | 0 |
| **Total** | **14,584** | **4,817** | **0** | **0** |

### 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 '000)** | **2017** | **2016** | **2017** | **2016** |
| Management fee | 0 | 0 | 31,500 | 33,500 |
| Gain on disposal of property, plant and equipment | 945 | 13,097 | 0 | 4,476 |
| Rental income | 1,519 | 3,238 | 0 | 0 |
| Other | 1,306 | 2,087 | 0 | 0 |
| **Total** | **3,770** | **18,422** | **31,500** | **37,976** |

### 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.

## 6 Depreciation and amortisation

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| Other intangible assets | 606 | 2,290 | 28 | 1,715 |
| Land and buildings | 17,366 | 18,928 | 0 | 0 |
| Plant and machinery | 47,952 | 49,947 | 0 | 0 |
| Fixtures and fittings, tools and equipment | 11,781 | 11,464 | 42 | 35 |
| **Total** | **77,705** | **82,629** | **70** | **1,750** |

## 7 Impairment losses

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| Land and buildings | 0 | 5,620 | 0 | 0 |
| Write-down and reversals of equity investments | 0 | 0 | (185,953) | 62,776 |
| Impairment loss relating to goodwill in Poland | 0 | 0 | 0 | 0 |
| **Total** | **0** | **5,620** | **(185,953)** | **62,776** |

No impairment is recognised in 2017. The impairment of DKK 5.6 million in 2016 related to land and buildings at Adamowice in Poland.

A net reversal of prior year's write-down of equity investments DKK 186.0 million is recognised in the parent company in 2017. The net reversal of prior year's write down of equity investments comprise of; Reversal of investments in H+H Polska Sp. z o.o. DKK 181.5 million, H+H Danmark A/S DKK 35.6 million, H+H Sverige AB DKK 10.0 million and H+H Benelux B.V. DKK 4.5 million offset by write-down of equity investments in OOO H+H (Russia) DKK 20.0 million, H+H Finland Oy DKK 25.1 million and Diverse af 29.9.2011 ApS DKK 0.5 million.

The write-down of equity investments in the parent company in 2016 of DKK 62.8 million relates to OOO H+H (Russia); please refer to note 15 for further information on assumptions applied in connection to the impairment testing.

## 8 Financial income

| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
|---|---|---|---|---|
| Interest income | 44 | 101 | 0 | 0 |
| Interest income from subsidiaries | 0 | 0 | 10,834 | 13,499 |
| Exchange rate adjustments | 0 | 0 | 3,225 | 2,691 |
| Dividend from subsidiary | 0 | 0 | 11,117 | 1,487 |
| Fair value adjustment of foreign exchange hedges | 378 | 0 | 0 | 0 |
| Other financial income | 1,075 | 1,144 | 0 | 0 |
| **Total** | **1,497** | **1,245** | **25,176** | **17,677** |

# Notes - Income statement

## 8 Financial income - continued

### 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

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| Interest expenses | 9,643 | 9,606 | 6,374 | 6,034 |
| Interest expenses to subsidiaries | 0 | 0 | 1,214 | 2,752 |
| Interest on financial instruments | 9,643 | 9,606 | 7,588 | 8,786 |
| Exchange rate adjustments relating to loans to subsidiaries | 0 | 0 | 0 | 0 |
| Other exchange rate adjustments | 474 | 687 | 0 | 1,542 |
| Write-down of intra-group debt | 0 | 0 | 44,476 | 3,300 |
| Financial expenses relating to pension plans; see note 19 | 3,824 | 3,199 | 0 | 0 |
| Other financial expenses | 6,270 | 9,278 | 1,902 | 1,185 |
| **Total** | **20,211** | **22,770** | **53,966** | **14,813** |

### Accounting policies

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

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

## 10 Tax

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| Tax on profit from continuing operations | 20,650 | 7,968 | (3,324) | (8,137) |
| Tax on other comprehensive income | (3,145) | (7,126) | 0 | 0 |
| **Total** | **17,505** | **842** | **(3,324)** | **(8,137)** |
| **Total tax can be broken down as follows:** | | | | |
| Current tax for the year | 19,256 | 22,652 | (1,628) | (101) |
| Adjustment relating to changes in tax rate | 319 | (703) | 0 | 0 |
| Adjustment of deferred tax | 4,791 | (8,166) | (1,964) | 843 |
| Change in valuation of tax assets | (6,322) | (10,484) | 0 | (8,879) |
| Prior-year adjustments | (539) | (2,457) | 268 | 0 |
| **Total** | **17,505** | **842** | **(3,324)** | **(8,137)** |
| **Current joint taxation contribution for the year** | **0** | **0** | **0** | **0** |
| **Tax on profit from continuing operations can be broken down as follows:** | | | | |
| Calculated 22.0% (2016: 22.0%) tax on income from ordinary activities | 24,259 | 21,373 | 33,535 | 1,069 |
| Less tax in foreign Group entities compared with 22.0% rate (2016: 22.0%) | (3,257) | (1,982) | 0 | 0 |
| Tax effect of: | | | | |
| Change in valuation of tax assets | (3,513) | (13,292) | 0 | (8,879) |
| Other adjustments | 170 | (1,053) | (3,373) | 0 |
| Non-deductible expenses/non taxable income | 2,991 | 2,922 | (33,486) | (327) |
| Non-deductible losses/non taxable gains related to investments in subsidaries | 0 | 0 | 0 | 0 |
| **Total** | **20,650** | **7,968** | **(3,324)** | **(8,137)** |

### 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

# Notes - Income statement

## 10 Tax - continued

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 sharebased 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.

## 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 '000)** | **2017** | **2016** | **2017** | **2016** |
| Revenue | 1,621,634 | 1,610,606 | 0 | 0 |
| Production costs | (1,260,601) | (1,278,604) | 0 | 0 |
| **Gross profit including depreciation and amortisation** | **361,033** | **332,002** | **0** | **0** |
| | | | | |
| Sales and distribution costs | (103,527) | (105,076) | 0 | 0 |
| Administrative costs | (112,417) | (115,132) | 149,722 | (102,056) |
| Other operating costs | (14,584) | (4,817) | 0 | 0 |
| Other operating income | 3,770 | 18,422 | 31,500 | 37,976 |
| **Operating profit/loss (EBIT)** | **134,275** | **125,399** | **181,222** | **(64,080)** |
| | | | | |
| **Depreciation, amortisation and impairment comprise:** | | | | |
| Amortisation of intangible assets | 606 | 1,865 | 29 | 1,715 |
| Write-down of intangible assets | 0 | 0 | 0 | 0 |
| Depreciation of property, plant and equipment | 77,099 | 80,764 | 41 | 35 |
| Write-down of property, plant and equipment | 0 | 5,620 | 0 | 0 |
| Write-down of equity investments | 0 | 0 | (185,953) | 62,776 |
| **Total** | **77,705** | **88,249** | **(185,883)** | **64,526** |
| | | | | |
| **Depreciation, amortisation and impairment are allocated to:** | | | | |
| Production costs | 72,429 | 72,782 | 0 | 0 |
| Sales and distribution costs | 1,718 | 905 | 0 | 0 |
| Administrative costs | 3,558 | 14,562 | (185,883) | 64,526 |
| **Total** | **77,705** | **88,249** | **(185,883)** | **64,526** |

### Accounting policies

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have taken place, and if the income can be measured reliably and is expected to be received. Revenue is measured net of VAT and duties collected on behalf of third parties. All types of discount and rebate granted are recognised in revenue.

Production costs comprise costs incurred in generating the revenue for the year. The trading entities recognise cost of sales and the producing entities 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.

# Notes - Income statement

## 11 Income statement classified by function - continued

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.

## 12 Earnings per share (EPS)

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| Average number of shares | 10,790,190 | 10,790,190 |
| Average number of treasury shares | (57,286) | (51,192) |
| Average number of outstanding shares | 10,732,904 | 10,738,998 |
| Dilution from share options | 0 | 0 |
| **Average number of outstanding shares, diluted** | **10,732,904** | **10,738,998** |
| | | |
| Profit/loss for the year (DKK '000) | 89,620 | 89,185 |
| **Shareholders in H+H International A/S (DKK '000)** | **89,620** | **89,185** |
| | | |
| Earnings per share (EPS) (DKK) | 8.35 | 8.30 |
| Diluted earnings per share (EPS-D) (DKK) | 8.35 | 8.30 |

For earnings and diluted earnings per share from discontinued operations; see note 24.

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 '000) | 2017 | 2016 |
|---|---|---|
| Profit/loss from discontinued operations | (5,291) | (6,721) |
| Profit/loss from continuing operations | 94,911 | 95,906 |
| **Profit/loss for the year** | **89,620** | **89,185** |

# Notes - Balance sheet

## 13 Intangible assets and property, plant and equipment

| | Parent company | | | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | | **2016** | |
| | **Other intangible assets** | **Fixtures and fittings, tools and equipment** | **Other intangible assets** | **Fixtures and fittings, tools and equipment** |
| Total cost at 1 January | 7,396 | 465 | 7,396 | 769 |
| Additions during the year | 0 | 337 | 0 | 0 |
| Disposals during the year | 0 | (397) | 0 | (304) |
| **Total cost at 31 December** | **7,396** | **405** | **7,396** | **465** |
| Total depreciation and amortisation at 1 January | (7,345) | (465) | (5,630) | (734) |
| Depreciation and amortisation of disposals | 0 | 397 | 0 | 304 |
| Depreciation and amortisation for the year | (28) | (42) | (1,715) | (35) |
| **Total depreciation and amortisation at 31 December** | **(7,373)** | **(110)** | **(7,345)** | **(465)** |
| **Carrying amount at 31 December** | **23** | **295** | **51** | **0** |

# Notes - Balance sheet

## 13 Intangible assets and property, plant and equipment - continued

| (DKK '000) Group 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 | 78,899 | 26,324 | 548,803 | 1,155,358 | 218,814 | 65,792 |
| Adjustment to opening | 748 | 4,709 | 0 | 0 | 5,680 | 0 |
| Foreign currency translation adjustments | 3,015 | 137 | 8,765 | (12,006) | (6,820) | (1,668) |
| Transfers | 0 | 475 | 7,898 | 17,164 | (1,134) | (30,239) |
| Additions during the year | 0 | 868 | 6,222 | 18,267 | 8,142 | 76,434 |
| Disposals during the year | 0 | (118) | (4) | (35,884) | (8,240) | (12) |
| **Total cost at 31 December 2017** | **82,662** | **32,395** | **571,684** | **1,142,899** | **216,442** | **110,307** |
| Total depreciation and amortisation at 1 January 2017 | (28,056) | (22,094) | (216,840) | (827,452) | (125,082) | 0 |
| Adjustment to opening | (748) | (4,709) | 0 | 0 | (5,680) | 0 |
| Foreign currency translation adjustments | (1,671) | (241) | (1,273) | 10,260 | 2,661 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation and amortisation for the year | 0 | (606) | (17,366) | (47,952) | (11,778) | 0 |
| Depreciation and amortisation of disposals | 0 | 118 | 1 | 35,624 | 7,711 | 0 |
| Impairment losses for the year | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total depreciation, amortisation and impairment losses at 31 December 2016** | **(30,475)** | **(27,532)** | **(235,478)** | **(829,520)** | **(132,168)** | **0** |
| **Carrying amount at 31 December 2017** | **52,187** | **4,863** | **336,206** | **313,379** | **84,274** | **110,307** |

| (DKK '000) Group 2016 | 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 2016 | 82,035 | 23,933 | 586,205 | 1,247,029 | 198,993 | 38,836 |
| Foreign currency translation adjustments | (3,136) | (1,218) | (25,855) | (68,350) | 16,747 | (3,673) |
| Transfers | 0 | 271 | 2,907 | 11,532 | 3,357 | (18,066) |
| Additions during the year | 0 | 3,338 | 1,436 | 16,063 | 5,865 | 56,628 |
| Disposals during the year | 0 | 0 | (15,890) | (50,916) | (6,148) | (7,933) |
| **Total cost at 31 December 2016** | **78,899** | **26,324** | **548,803** | **1,155,358** | **218,814** | **65,792** |
| Total depreciation and amortisation at 1 January 2016 | (30,095) | (21,265) | (221,543) | (885,663) | (113,963) | (7,933) |
| Foreign currency translation adjustments | 2,039 | 1,461 | 14,211 | 63,324 | (5,547) | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation and amortisation for the year | 0 | (2,290) | (18,928) | (49,947) | (11,465) | 0 |
| Depreciation and amortisation of disposals | 0 | 0 | 15,040 | 44,834 | 5,893 | 7,933 |
| Impairment losses for the year | 0 | 0 | (5,620) | 0 | 0 | 0 |
| **Total depreciation, amortisation and impairment losses at 31 December 2016** | **(28,056)** | **(22,094)** | **(216,840)** | **(827,452)** | **(125,082)** | **0** |
| **Carrying amount at 31 December 2016** | **50,843** | **4,230** | **331,963** | **327,906** | **93,732** | **65,792** |

### Impairment test of goodwill

On 31 December 2017, management tested the carrying amount of goodwill for impairment based on the allocation of the cost of goodwill to the cash-generating units. 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.

For the purpose of impairment testing the recoverable amount was defined as the value in use. In general, the impairment tests were based on the budget and strategy projections as approved by management. The assumptions of the forecast are based on benchmarked external data and historic trends. The key parameters in the calculation of the value in use are revenue, earnings, discount rate and the preconditions for the terminal period.

DKK 28,215 thousand (2016: DKK 28,183 thousand of the goodwill relates to Germany and DKK 23,971 thousand (2016: DKK 22,660 thousand) to Poland.

# Notes - Balance sheet

## 13 Intangible assets and property, plant and equipment - continued

The assumptions used for the impairment tests are the same as those used in the impairment tests for non-current assets.

Average annual growth has been assessed by local and Group management. The growth rate is not expected to exceed the average long-term growth rate in the H+H Group's markets. An increasing gross margin has been estimated for the period 2018-2023 (for Russia 2018-2027), 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 recognised principles including the determination of return on equity and cost of debt as well as assumptions provided by external valuation specialists.

Components for the return on equity, the marked risk premium, company specific risk premium and beta-values, is estimated on the basis of information provided by an external valuation specialist. The risk-free rate for the relevant countries has been sourced from trading economics and is equal a 10-years government bond in each country. The cost of debt is estimated based on the actual margin in the bank agreements and the risk-free rate.

In both 2017 and 2016, the impairment test of goodwill showed no impairment relating to goodwill.

**Impairment tests of non-current assets**
The Group's key non-current assets were tested for impairment in 2017, including with regard to assets in Poland, Continental Western Europe, the UK and Russia, which together represent more than 90% of the Group's total non-current assets at 31 December 2017. Continental Western Europe comprise of Germany, Denmark, Sweden, Holland and Belgium.

The impairment tests of non-current assets performed at 31 December 2017 do not show any indications of impairment.

The assumptions made can be summarised as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | Poland | Continental Western Europe | UK | Russia |
| Carrying amount of intangible assets, property, plant and equipment at 31 December 2017 (DKK '000) | 307,149 | 262,813 | 192,843 | 122,497 |
| Estimated average annual growth in revenue 2018-2023 (CAGR) | 2.3% | 4.3% | 6.3% | 4.0% |
| Estimated average annual growth in gross margin in percentage points 2018-2023 (for 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% |

| | 2016 | | | |
|---|---|---|---|---|
| | Poland | Continental Western Europe | UK | Russia |
| Carrying amount of intangible assets, property, plant and equipment at 31 December 2016 (DKK '000) | 291,955 | 265,968 | 161,304 | 139,385 |
| Estimated average annual growth in revenue 2017-2022 (CAGR) | 2.9% | 7.5% | 5.6% | 9.0% |
| Estimated average annual growth in gross margin in percentage points 2017-2022 | 0.6 | 0.5 | 1.1 | 1.1 |
| WACC before tax | 7.4% | 5.8% | 6.0% | 12.5% |
| WACC after tax | 7.1% | 5.5% | 5.7% | 11.7% |

Compared to prior year has the return on equity for all CGU's increased which primarily is a result of added marked specific risk premiums as well as higher beta-values used, this to better reflect the H+H target capital structure. Consequently, the WACC for all CGUs has overall increased for 2017 compared to 2016.

The weighted average growth rate used for extrapolating expected future net cash flows for the years after 2022 has been estimated at 1.0% - 3.0% (2016: 0.0% - 1.0%).

**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 2018-2023 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. The assumptions must change as follows before the carrying amount equals the value in use.

# Notes - Balance sheet

## 13 Intangible assets and property, plant and equipment - continued

Uncertain market conditions still being experienced in Russia which makes it more difficult than normal to predict the future performance of this entity. Consequently, the budget and forecast period for Russia has been extended to 2027 whereas normalised earnings are expected. Moreover, external valuations carried out showed valuations in excess of current asset values. 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.

| | 2017 | | | |
|---|---|---|---|---|
| | Poland | Continental Western Europe | UK | Russia |
| Long-term growth rate after 2022 | -9.1% | <-10% | <-10% | 2.0% |
| Change in estimated average annual growth in revenue 2018-2023 (CAGR) | -1,3% | 0,5% | <-10% | 3,4% |
| WACC before tax | 17,3% | 21,0% | >20% | 15,9% |
| WACC after tax | 15,2% | 17,3% | >20% | 13,7% |

### 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 comprise patents/licences and development projects. 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. The amortisation base is reduced by any impairment losses. Other intangible assets are amortised on a straight-line basis over the expected useful lives of the assets.

### Property, plant and equipment

Land and buildings, plant and machinery, 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

# Notes - Balance sheet

## 13 Intangible assets and property, plant and equipment - continued

- Plant, machinery and other equipment 5-20 years
- Vehicles, fixtures and IT equipment 3-10 years
- Software and other intangible assets 3-6 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.

**Critical accounting estimates and judgements**
**Impairment of 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 esti- mated. 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 extra- polated using individual growth rates. The discount rate used for the calculation incorporates possible impacts of future risks.

## 14 Deferred tax

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| Deferred tax at 1 January | 26,880 | 6,102 | 8,036 | 0 |
| Addition from acquisition | 0 | 0 | 0 | 0 |
| Foreign exchange adjustments | 5 | 2,128 | 0 | 0 |
| Change in deferred tax | (4,790) | 8,166 | 0 | (843) |
| Valuation of tax asset | 6,322 | 10,484 | 1,964 | 8,879 |
| **Deferred tax at 31 December** | **28,417** | **26,880** | **10,000** | **8,036** |

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| **Deferred tax relates to:** | | | | |
| Non-current assets | (52,621) | (49,480) | 0 | 0 |
| Current assets | 1,710 | 676 | 0 | 0 |
| Liabilities | 29,582 | 32,531 | 0 | 0 |
| Tax loss carry-forwards | 49,746 | 43,153 | 10,000 | 8,036 |
| **Total** | **28,417** | **26,880** | **10,000** | **8,036** |
| | | | | |
| **Breakdown of deferred tax and recognition in the balance sheet:** | | | | |
| Deferred tax assets | 28,417 | 26,880 | 10,000 | 8,036 |
| Deferred tax liabilities | 0 | 0 | 0 | 0 |
| **Total** | **28,417** | **26,880** | **10,000** | **8,036** |

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.

# Notes - Balance sheet

## 14 Deferred tax - continued

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 58 million at 31 December 2017 (2016: DKK 97 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 Germany, Russia, Finland and Denmark. Tax value of loss carry-forwards related to discontinued businesses amounts to DKK 23 million at 31 December 2017. None of these losses are recognised.

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.

### 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

| | Parent company | |
|---|---|---|
| **(DKK '000)** | **2017** | **2016** |
| Acquisition cost at 1 January | 1,270,069 | 1,269,524 |
| Additions | 25,866 | 545 |
| Disposals | (1,641) | 0 |
| **Cost at 31 December** | **1,294,294** | **1,270,069** |
| Impairment losses at 1 January | (518,217) | (455,441) |
| Reversal of previous write-down | 231,599 | 0 |
| Impairment losses, equity investments | (45,646) | (62,776) |
| Reversal in connection with disposals | 1,641 | 0 |
| **Impairment losses at 31 December** | **(330,623)** | **(518,217)** |
| **Carrying amount at 31 December** | **963,671** | **751,852** |

The cost of investments in subsidiaries was tested for impairment at the end of 2017. The recoverable amount of the equity investments at 31 December 2017 is based on the value in use, which has been determined using expected net cash flows based on estimates for the years 2018-2023 and a WACC after tax of 6.7%-13.3% (2016: 5.5-11.7%). The weighted average growth rate used for extrapolating expected future net cash flows for the years after 2023 (for Russia 2027) has been estimated at 1.0%-3.0% (2016: 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.

# Notes - Balance sheet

## 15 Investments in subsidiaries - continued

Additions in above table comprise of debt conversion for H+H Finland Oy DKK 25.1 million and a capital injection for H+H Sverige AB of DKK 0.8 million.

In the above table are a net reversal of prior year's write-down of equity investments DKK 186.0 million recognised in the parent company in 2017. The net reversal of prior year's write down of equity investments comprise of; Reversal of investments in H+H Polska Sp. z o.o. DKK 181.5 million (2016: DKK 0.0 million), H+H Danmark A/S DKK 35.6 million (2016: DKK 0.0 million), H+H Sverige AB DKK 10.0 million (2016: DKK 0.0 million) and H+H Benelux B.V. DKK 4.5 million (2016: DKK 0.0 million) offset by write-down of equity investments in OOO H+H (Russia) DKK 20.0 million (2016: DKK 62.8 million), H+H Finland Oy DKK 25.1 million (2016: DKK 0.0 million) and Diverse af 29.9.2011 ApS DKK 0.5 million (2016: DKK 0.0 million).

The carrying amount of H+H Polska Sp. z o.o. amounts to DKK 401.9 million (2016: DKK 220.4 million), H+H Danmark A/S DKK 62.2 million (2016: DKK 26.6 million), H+H Sverige AB DKK 38.4 million (2016: DKK 28.4 million) and H+H Benelux B.V. DKK 7.0 million (2016: DKK 2.5 million), OOO H+H (Russia) DKK 0.0 million (2016: DKK 20.0 million), H+H Finland Oy DKK 0.0 million (2016: DKK 25.1 million) and Diverse af 29.9.2011 ApS DKK 0.0 million (2016: DKK 0.5 million).

| | | 2017 | 2016 |
|---|---|---|---|
| | Registered office | Equity interest, % | Equity interest, % |
| KWAY Holding Limited* | UK | 100 | 100 |
| H+H Deutschland GmbH | Germany | 100 | 100 |
| H+H Danmark A/S | Denmark | 100 | 100 |
| HHI A/S af 3. maj 2004 | Denmark | 100 | 100 |
| H+H Finland Oy (liquidated in January 2018) | Finland | 100 | 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. | Czech Rep. | 100 | 100 |
| H+H Ukraina TOV | Ukraine | 100 | 100 |
| H+H UA TOV | Ukraine | 100 | 100 |
| OOO H+H | Russia | 100 | 100 |
| H+H Benelux B.V. | Netherlands | 100 | 100 |
| H+H Baltic SIA (liquidated in 2017) | Latvia | N/A | 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 Grupa Prefabet S.A., H+H Invest Sp. Z o.o. and H+H Finance Sp. Z o.o.
The above list does not include indirectly owned companies without any activities.

H+H Baltic SIA has been liquidated in 2017. H+H Finland Oy has been liquidated in January 2018 and H+H EIQ s.r.o., H+H Ukraina TOV and H+H UA TOV are expected to be liquidated in 2018.

### 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

## 16 Inventories/production costs

| | Group | | Parent company | |
|---|---|---|---|---|
| (DKK '000) | 2017 | 2016 | 2017 | 2016 |
| Raw materials and consumables | 57,886 | 47,379 | 0 | 0 |
| Finished goods and goods for resale | 209,674 | 135,060 | 0 | 0 |
| **Total** | **267,560** | **182,439** | **0** | **0** |
| **Write-downs recognised in the inventories above have developed as follows:** | | | | |
| Write-downs at 1 January | 10,217 | 10,210 | 0 | 0 |
| Foreign exchange adjustments | 60 | (110) | 0 | 0 |
| Write-downs for the year | 14,094 | 5,924 | 0 | 0 |
| Realised during the year | (323) | (553) | 0 | 0 |
| Reversals | (9,419) | (5,254) | 0 | 0 |
| **Total** | **14,629** | **10,217** | **0** | **0** |
| **Production costs comprised:** | | | | |
| Wages and salaries | 202,281 | 189,527 | 0 | 0 |
| Production overheads | 114,630 | 104,487 | 0 | 0 |
| Consumptions of raw materials | 866,586 | 911,137 | 0 | 0 |
| Write-downs for the year | 14,094 | 5,925 | 0 | 0 |
| Reversals of inventory write-downs | (9,419) | (5,254) | 0 | 0 |
| **Total** | **1,188,172** | **1,205,822** | **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.

# Notes - Balance sheet

### 16 Inventories/production costs - continued

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

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| Trade receivables | 74,115 | 59,161 | 0 | 0 |
| Other receivables | 32,798 | 31,844 | 11,509 | 13,205 |
| **Total** | **106,913** | **91,005** | **11,509** | **13,205** |

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

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| **Age analysis of trade receivables (gross):** | | | | |
| Not past due | 76,644 | 77,929 | 0 | 0 |
| 0-30 days | 19,753 | 21,021 | 0 | 0 |
| 30-90 days | 1,042 | 1,457 | 0 | 0 |
| Over 90 days | 3,751 | 5,904 | 0 | 0 |
| **Total trade receivables** | **101,190** | **106,311** | **0** | **0** |
| **Write-downs relating to receivables, year-end** | **6,112** | **7,297** | **0** | **0** |

| **Write-downs of receivables by geographical region** | Group | | | | | |
|---|---|---|---|---|---|---|
| **(DKK '000)** | **2017** | | | **2016** | | |
| | **Western Europe** | **Eastern Europe** | **Total** | **Western Europe** | **Eastern Europe** | **Total** |
| Write-downs at 1 January | 2,653 | 4,644 | 7,297 | 1,788 | 5,639 | 7,427 |
| Foreign exchange adjustments | 0 | (44) | (44) | (77) | 125 | 48 |
| Write-downs for the year | 161 | 285 | 446 | 1,679 | 274 | 1,953 |
| Realised during the year | 0 | (103) | (103) | (690) | (296) | (986) |
| Reversals | (26) | (1,458) | (1,484) | (47) | (1,098) | (1,145) |
| **Write-downs relating to receivables at 31 December** | **2,788** | **3,324** | **6,112** | **2,653** | **4,644** | **7,297** |

The parent company has no trade receivables and there have not been any write-downs of receivables for 2017 or 2016.

# Notes - Balance sheet

## 17 Trade and other receivables- continued

Other receivables include VAT, other indirect taxes etc. and fall due within one year of the balance sheet date.

Receivables that are not past due are predominantly deemed to have a high credit quality. Security is not normally 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 2017.

Trade receivables which were past due at 31 December 2017 but not impaired are also included, as follows:

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| **Maturity period of trade receivables:** | | | | |
| 0-30 days | 18,435 | 21,021 | 0 | 0 |
| 30-90 days | 0 | 65 | 0 | 0 |
| Over 90 days | 0 | 0 | 0 | 0 |
| **Total** | **18,435** | **21,086** | **0** | **0** |

### Accounting policies

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

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 | | Nominal value, DKK '000 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Share capital at 1 January | 10,790,190 | 10,790,190 | 107,902 | 107,902 |
| Capital reduction | 0 | 0 | 0 | 0 |
| Issue of ordinary shares | 0 | 0 | 0 | 0 |
| **Share capital at 31 December – fully paid** | **10,790,190** | **10,790,190** | **107,902** | **107,902** |

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.

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

**Treasury shares**

| | **Number** | **Nominal value, DKK '000** | **% of share capital, year-end** |
|---|---|---|---|
| Holding at 1 January 2016 | 24,441 | 244 | (0.2) |
| Purchased during the year | 71,500 | 715 | (0.7) |
| Granted due to matching share programme in 2013 | (25,713) | (257) | 0.2 |
| Capital reduction | 0 | 0 | 0.0 |
| Sold during the year | 0 | 0 | 0.0 |
| Holding at 31 December 2016 | 70,228 | 702 | (0.7) |
| Purchased during the year | 0 | 0 | 0.0 |
| Granted due to matching share programme in 2014 | (16,812) | (168) | 0.2 |
| Granted outside of the matching share programme | (242) | (2) | 0.0 |
| Capital reduction | 0 | 0 | 0.0 |
| Sold during the year | 0 | 0 | 0.0 |
| **Holding at 31 December 2017** | **53,174** | **531** | **(0.5)** |

# Notes - Balance sheet

## 18 Share capital and treasury shares - continued

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.

**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.

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 150,199 thousand (2016: DKK 171,315 thousand) 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 10,843 thousand (2016: DKK 9,286 thousand) 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 3,824 thousand (2016: DKK 3,199 thousand) has been recognised in the consolidated income statement as financial expenses.

The Group has defined benefit plans in the UK and Germany. The UK 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 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 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 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 and a more detailed actuarial calculation of the pension obligations is expected in the first half of 2018 with an effective valuation date of April 2017. A detailed actuarial calculation carried out in April 2014 showed an unfunded pension obligation of DKK 179 million (GBP 18.8 million). H+H UK Limited and H+H Celcon Pension Fund Trustee Limited has entered into an agreement on the payment of contributions to cover the unfunded pension obligation (Schedule of Contributions). The agreement sets out a repayment profile under which H+H UK Limited will pay DKK 19 million (GBP 2.17 million) per annum in the period April 2015 - March 2018, increasing to DKK 22 million (GBP 2.50 million) per annum to March 2019, then increasing gradually to DKK 24 million (GBP 2.8 million) per annum in April 2022. The final payment of DKK 12 million (GBP 1.4 million) being paid April 2023 to September 2023.

# Notes - Balance sheet

## 19 Pension obligations - continued

The 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 2017 by Mr Oscar Brown, Fellow of the UK Institute of Actuaries, and in Germany by AON. 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 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.

| | Group | |
|---|---|---|
| **(DKK '000)** | **2017** | **2016** |
| **Pensions and similar obligations:** | | |
| Present value of fully or partly funded defined benefit plans | 698,644 | 711,687 |
| Fair value of plan assets | 559,258 | 551,866 |
| Deficit | 139,386 | 159,821 |
| Present value of unfunded defined benefit plans recognised in the balance sheet | 10,813 | 11,494 |
| **Net obligation recognised in the balance sheet** | **150,199** | **171,315** |
| | | |
| **Development in present value of defined benefit obligation:** | | |
| Obligation at 1 January | 723,181 | 657,539 |
| Foreign exchange adjustments | (25,193) | (97,559) |
| Calculated interest on obligation | 17,894 | 22,300 |
| Gains/losses as a result of changes in economic assumptions | 21,510 | 164,413 |
| Gains/losses as a result of changes in demographic assumptions | (8,625) | 17,565 |
| Empirical changes | 6,181 | (11,521) |
| Pension paid | (25,491) | (29,556) |
| **Obligation at 31 December** | **709,457** | **723,181** |
| | | |
| **Breakdown of the present value of defined benefit obligation:** | | |
| Present value of fully or partly funded defined benefit obligations | 698,644 | 711,687 |
| Present value of unfunded defined benefit obligations | 10,813 | 11,494 |
| **Obligation at 31 December** | **709,457** | **723,181** |

| | Group | |
|---|---|---|
| **(DKK '000)** | **2017** | **2016** |
| **Development in fair value of plan assets:** | | |
| Plan assets at 1 January | 551,866 | 544,880 |
| Foreign exchange adjustments | (19,774) | (79,807) |
| Calculated interest income | 13,936 | 18,899 |
| Return on plan assets over and above the calculated interest | 19,688 | 77,171 |
| The Group's contributions to plan assets | 18,448 | 19,707 |
| Pensions paid | (24,906) | (28,984) |
| **Plan assets at 31 December** | **559,258** | **551,866** |
| | | |
| **Pension costs relating to the current financial year, recognised as staff costs:** | | |
| Pension costs relating to defined contribution plans | 10,843 | 9,286 |
| **Total pension costs** | **10,843** | **9,286** |
| | | |
| **Financial costs relating to the defined benefit plans for the current year:** | | |
| Calculated interest on obligation | (17,894) | (22,300) |
| Calculated interest on plan assets | 13,936 | 18,899 |
| **Net interest on defined benefit plans** | **(3,958)** | **(3,401)** |
| | | |
| **Pension costs recognised in other comprehensive income:** | | |
| Gains/losses as a result of change in economic assumptions | (21,510) | (164,413) |
| Gains/losses as a result of change in demographic assumptions | 8,625 | (17,565) |
| Return on plan assets over and above the calculated interest | 19,688 | 77,171 |
| Changes due to empirical changes | (6,181) | 11,521 |
| **Total** | **622** | **(93,286)** |

The cost has been recognised in the income statement under staff costs; see note 3. Costs recognised under production costs amount to DKK 6,511 thousand (2016: DKK 5,472 thousand), costs recognised under sales and distribution costs amount to DKK 2,455 thousand (2016: DKK 2,201 thousand) and costs recognised under administrative costs amount to DKK 1,876 thousand (2016: DKK 1,603 thousand).

| **Plan assets can be broken down as follows:** | | |
|---|---|---|
| Shares | 0 | 221,850 |
| Bonds | 0 | 327,808 |
| Diversified Growth Fund | 235,462 | 0 |
| Liability Driven Investment | 175,248 | 0 |
| Alternatives | 147,935 | 0 |
| Cash | 613 | 2,208 |
| **Total** | **559,258** | **551,866** |

All plan assets in the UK pension fund are investments held in LGIM funds, which in turn invest directly in highly rated assets that are traded on a stock exchange.

# Notes - Balance sheet

## 19 Pension obligations - continued

| | Group | |
|---|---|---|
| **Return on plan assets** | **2017** | **2016** |
| Actual return on plan assets | 33,624 | 96,070 |
| Calculated interest on plan assets | 13,936 | 18,899 |
| **Actuarial gain (loss) on plan assets** | **19,688** | **77,171** |

The average assumptions for the actuarial calculations at the balance sheet date can be stated as follows:

| | Group | |
|---|---|---|
| **(DKK '000)** | **2017** | **2016** |
| Discount rate (avg.) | 2.4% | 2.6% |
| Expected inflation rate | 3.4% | 3.5% |
| Members' life expectancy from retirement age (years) | 23.0 | 23.2 |

### Sensitivity analysis

The table below shows the sensitivity of the 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:

| | Group | |
|---|---|---|
| **(DKK '000)** | **2017** | **2016** |
| **Sensitivity relative to discount rate:** | | |
| If the discount rate falls by 0.1 percentage point, the pension obligation will increase by | 13,422 | 12,694 |
| **Sensitivity relative to inflation:**<br>If the inflation rate increases by 0.1 percentage point,<br>the pension obligation will increase by | 6,711 | 5,912 |
| **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 | 33,555 | 21,736 |

The Group expects to pay DKK 20 million into the defined benefit pension plan in 2017 (2016: DKK 20 million).

The pension obligation is expected to fall due as follows:

| | Group | |
|---|---|---|
| **(DKK '000)** | **2017** | **2016** |
| 0-1 year | 25,174 | 28,333 |
| 1-5 years | 100,694 | 113,331 |
| Over 5 years | 583,589 | 581,517 |
| **Total** | **709,457** | **723,181** |

### 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 cost for the year is recognised in the income statement based on actuarial estimates and the financial outlook at the start of the year. Differences between the expected development in plan assets and obligations and the realised values determined at year-end are designated as actuarial

### 19 Pension obligations - continued

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 '000) | 2017 | 2016 |
| Provisions at 1 January | 30,276 | 37,129 |
| Foreign exchange adjustments | (481) | (63) |
| Provisions for the year | 133 | 4,518 |
| Utilised during the year | (7,375) | (6,401) |
| Reversals during the year | (5,043) | (4,907) |
| **Provisions at 31 December** | **17,510** | **30,276** |
| | | |
| **Breakdown of the provisions at 31 December:** | | |
| Warranty obligations | 1,054 | 1,251 |
| Obligations relating to restoration of sites | 794 | 5,759 |
| Onerous contracts | 13,223 | 13,701 |
| Close down costs related to Finland | 1,091 | 3,694 |
| Other provisions | 1,348 | 5,871 |
| **Total** | **17,510** | **30,276** |

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 2017, 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. Restoration is expected to take place after five years.

A provision has been recognised reflecting the onerous Westbury lease contract.

A provision still remains regarding the close down of the discontinued businesses in Finland. Refer to note 24 for further information regarding the discontinued businesses.

The provisions are recognised based on expected maturities whereas for 2017 DKK 14.5 million (2016: DKK 24.0 million) is recognised as non-current liabilities and DKK 3.1 million (2016: DKK 10.0 million) as current liabilities.

In 2016, a provision of DKK 31.3 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. Due to the liquidation of H+H Finland Oy are the provision reduced to DKK 18.4 million in 2017.

**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.

# Notes - Supplementary information

## 21 Credit institutions

| | Group | | Parent company | |
|---|---|---|---|---|
| (DKK '000) | 2017 | 2016 | 2017 | 2016 |
| Bank loans, non-current | 470,188 | 396,203 | 356,469 | 307,503 |
| Amortised borrowing costs | (1,473) | (1,283) | (1,473) | (1,283) |
| Total | 468,715 | 394,920 | 354,996 | 306,220 |

| CHANGE IN BORROWINGS FROM FINANCING ACTIVITIES: | Group | | Parent company | |
|---|---|---|---|---|
| (DKK '000) | 2017 | 2016 | 2017 | 2016 |
| Borrowings 1 January 2017 | 394,920 | 496,629 | 306,220 | 335,878 |
| Cash flow, net | 65,986 | (104,126) | 48,777 | (29,658) |
| Cash flow discontinued operations, net | 9,414 | 11,341 | 0 | 0 |
| Foreign exchange adjustments | (1,605) | (8,924) | 0 | 0 |
| Borrowings 31 December 2017 | 468,715 | 394,920 | 354,996 | 306,220 |

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

### 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.

## 22 Contingent liabilities

| | Group | | Parent company | |
|---|---|---|---|---|
| (DKK '000) | 2017 | 2016 | 2017 | 2016 |
| Operating leases | Lease payments | Lease payments | Lease payments | Lease payments |
| 0-1 year | 7,993 | 9,865 | 141 | 265 |
| 1-5 years | 7,901 | 12,550 | 44 | 334 |
| Over 5 years | 0 | 0 | 0 | 0 |
| Total | 15,894 | 22,415 | 185 | 599 |

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 production equipment and vehicles, primarily in the UK and Germany.

| | Group | | Parent company | |
|---|---|---|---|---|
| (DKK '000) | 2017 | 2016 | 2017 | 2016 |
| Rental obligations | Lease payments | Lease payments | Lease payments | Lease payments |
| 0-1 year | 2,686 | 3,715 | 675 | 359 |
| 1-5 years | 8,568 | 6,687 | 2,735 | 0 |
| Over 5 years | 50,005 | 52,014 | 0 | 0 |
| Total | 61,259 | 62,416 | 3,410 | 359 |

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

An amount of DKK 12,078 thousand (2016: DKK 16,743 thousand) has been recognised in the consolidated income statement for 2017 in respect of operating leases and rental obligations.

### 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 2017 amounts to DKK 113,718 thousand (2016: DKK 87,864 thousand).

### 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 subsidiaries have been pledged as security for a loan agreement with Danske Bank A/S.

# Notes - Supplementary information

## 23 Auditors' remuneration

| | Group | | Parent company | |
|---|---|---|---|---|
| **(DKK '000)** | **2017** | **2016** | **2017** | **2016** |
| **Total fees for the parent company's auditors elected at the annual general meeting:** | | | | |
| Deloitte | 3,627 | 2,426 | 584 | 540 |
| **Total** | **3,627** | **2,426** | **584** | **540** |
| | | | | |
| **The total fee can be broken down as follows:** | | | | |
| Statutory audit | 1,596 | 1,800 | 433 | 512 |
| Advisory | 1,855 | 0 | 0 | 0 |
| Tax and VAT assistance | 101 | 403 | 35 | 28 |
| Other services | 75 | 223 | 116 | 0 |
| **Total** | **3,627** | **2,426** | **584** | **540** |

The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the Group amounts to DKK 358.150 and consist of 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. Refer to page 12 for further information on 'Borough Green Gardens'.

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.

In 2016 land at Kozienice in Poland and land and buildings in the Czech Republic, and unused production equipment have been sold. The sale proceeds were DKK 40.0 million and result in an accounting gain before tax of DKK 13.0 million.

### Discontinued operations

As part of H+H's continued focus on core business, the Board of Directors decided in the third quarter of 2011 to divest the Finnish subsidiary Jämerä-kivitalot Oy, which designs, builds and sells aircrete houses for private individuals. The divestment was carried out in 2012 through the disposal of the bulk of the subsidiary's activities, and the subsidiary was subsequently renamed Stone Kivitalot Oy. Stone Kivitalot Oy has therefore been classified as a discontinued operation. All projects have been delivered to customers, and the operating loss from the activities of Stone Kivitalot Oy relates only to the resolution of uncertainties arising from and directly connected to claims handling on completed projects.

In 2013 it was decided to close H+H Finland Oy's factory in Ikaalinen in order to boost overall competitiveness and optimise the capacity utilisation of H+H's other factories. The closure took place in 2013. The Finnish operation has therefore been classified as a discontinued operation. The factory in Ikaalinen was sold for DKK 3 million in December 2015. The liquidation process was started in the autumn 2016 and was finalized in December 2017.

The Ukrainian subsidiaries H+H Ukraina TOV and H+H UA TOV, which are without activity, are expected to be sold or liquidated within six months, whereas they have been classified as discontinued operations.

| | Group | |
|---|---|---|
| **(DKK '000)** | **2017** | **2016** |
| **Discontinued operations have impacted the income statement as follows:** | | |
| Operating loss for the period until transfer of control | (5.291) | (6.721) |
| Tax on loss for the period | 0 | 0 |
| Loss on sale of non-current assets held for sale | 0 | 0 |
| **Total** | **(5.291)** | **(6.721)** |
| | | |
| **Operating loss for the period until transfer of control can be specified as follows:** | | |
| Revenue | 0 | 8 |
| Expenses | (5.291) | (6.729) |
| Loss for the year before tax | (5.291) | (6.721) |
| Tax on loss for the year | 0 | 0 |
| Loss for the year after tax | (5.291) | (6.721) |
| **Loss for the year from discontinued operations** | **(5.291)** | **(6.721)** |
| | | |
| Earnings per share from discontinued operations (EPS) (DKK) | (0,63) | (0,63) |
| Diluted earnings per share from discontinued operations (EPS-D) (DKK) | (0,63) | (0,63) |
| | | |
| Cash flow from operating activities | (9.543) | (11.170) |
| Cash flow from investing activities | 0 | 0 |
| Cash flow from financing activities | 9.414 | 11.341 |
| **Total cash flow from discontinued operations** | **(129)** | **171** |
| | | |
| **Assets held for sale and liabilities relating to assets held for sale:** | | |
| Intangible assets | 0 | 0 |
| Property, plant and equipment | 0 | 0 |
| Inventories | 0 | 0 |
| Receivables | 0 | 0 |
| Cash and cash equivalents | 0 | 0 |
| **Assets held for sale, total** | **0** | **0** |
| | | |
| Credit institutions | 0 | 0 |
| Trade payables | 0 | 0 |
| Other payables | 0 | 0 |
| Other provisions | 0 | 0 |
| **Liabilities relating to assets held for sale, total** | **0** | **0** |

# Notes - Supplementary information

## 24 Discontinued operations and assets held for sale - continued

**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.

## 25 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 2017 entered foreign contracts for purchase of EUR and PLN 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.

# Notes - Supplementary information

## 25 Financial instruments and financial risks - continued

**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 unutilized term loan of DKK 850 million are facilitated by Danske Bank A/S subject to H+H's fulfilment of below mentioned financial covenants.

The credit facility was amended 30th June 2017 by DKK 50 million to DKK 650 million, this in connection to the acquisition of Grupa Silikaty. The Credit facility is running until April 2020 with an option of another two years.

The term loan agreement of DKK 850 million was entered 8th December 2017, was utilized 28th February 2018 in connection to the acquisition of "HDKS" and is available until 31 January 2019. Refer to note 27 "Events after the balance sheet date" for further information on the "HDKS" acquisition.

The financial covenants for the term loan replaced the financial covenants for the credit facility, this from the fourth quarter of 2017.

The credit facility of DKK 650 million contain the following financial covenants which has been fulfilled for first three quarters of 2017:

- Cashflow cover (Cashflow to Debt Service Ratio)
- Leverage ratio (net debt to EBITDA)
- Solvency ratio (equity to total assets)

The term loan of DKK 850 million contain the following financial covenants which has been fulfilled in the fourth quarter of 2017 and which shall be fulfilled for 2018 an onwards:

- 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 will continue to be dependent on debt financing and will during the next 12 months evaluate different funding sources to maintain a prudent capital structure

**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.

# Notes - Supplementary information

## 25 Financial instruments and financial risks - continued

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.

### Monetary items in foreign currency

Group

| (DKK '000) 2017 | EUR | GBP | PLN | DKK | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| Trade receivables | 7,227 | 35,940 | 5,787 | 18,172 | 3,886 | 3,104 | 74,115 |
| Other receivables | 5,486 | 353 | 24,851 | 1,761 | 348 | 0 | 32,798 |
| Cash and cash equivalents | 5,568 | 1,677 | 1,097 | 1,030 | 3,345 | 337 | 13,054 |
| Trade payables | (26,114) | (123,729) | (44,121) | (12,680) | (6,054) | (3,767) | (216,466) |
| Other payables | (26,467) | (19,162) | (19,147) | (10,115) | (3,867) | (6,596) | (85,355) |
| Credit institutions | (22,914) | (27,760) | (55,679) | (358,871) | 0 | (3,492) | (468,715) |
| Gross exposure | (57,215) | (132,681) | (87,212) | (360,703) | (2,343) | (10,414) | (650,568) |
| Hedged via derivative financial instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net exposure** | **(57,215)** | **(132,681)** | **(87,212)** | **(360,703)** | **(2,343)** | **(10,414)** | **(650,568)** |

| 2016 | EUR | GBP | PLN | DKK | RUB | Other | Total |
|---|---|---|---|---|---|---|---|
| Trade receivables | 2,358 | 23,977 | 3,348 | 20,935 | 3,391 | 5,151 | 59,161 |
| Other receivables | 5,421 | 320 | 23,171 | 2,467 | 429 | 36 | 31,844 |
| Cash and cash equivalents | 2,104 | 44 | 3,881 | 207 | 1,685 | 339 | 8,259 |
| Trade payables | (25,738) | (101,444) | (37,739) | (15,267) | (5,260) | (2,704) | (188,153) |
| Other payables | (11,823) | (37,353) | (10,570) | (12,417) | (4,476) | (6,826) | (83,465) |
| Credit institutions | (31,007) | (4,100) | (42,984) | (310,861) | 0 | (5,968) | (394,920) |
| Gross exposure | (58,685) | (118,556) | (60,893) | (314,935) | (4,231) | (9,973) | (567,274) |
| Hedged via derivative financial instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net exposure** | **(58,685)** | **(118,556)** | **(60,893)** | **(314,935)** | **(4,231)** | **(9,973)** | **(567,274)** |

### Parent company's monetary items and sensitivity

| (DKK '000) | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Position | Sensitivity | | | Position | Sensitivity | | |
| | Cash and receivables | Potential volatility of exchange rate | Hypothetical impact on profit before tax for the year* | Hypothetical impact on equity | Cash and receivables | Potential volatility of exchange rate | Hypothetical impact on profit before tax for the year* | Hypothetical impact on equity |
| EUR/DKK | 333,878 | 1% | 3,339 | 2,604 | 315,348 | 1% | 3,153 | 2,460 |
| GBP/DKK | (53,450) | 5% | (2,672) | (2,085) | (63,548) | 5% | (3,177) | (2,478) |
| | | | **666** | **520** | | | **(24)** | **(19)** |

* 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.

### Sensitivity of profit and equity to market fluctuations

Group

| (DKK '000) | 2017 | | 2016 | |
|---|---|---|---|---|
| | Profit | Equity | Profit | Equity |
| 5% increase in GBP/DKK | 4,721 | 17,045 | 5,621 | 12,819 |
| 5% increase in PLN/DKK | 1,047 | 13,435 | 66 | 11,693 |
| 5% increase in RUB/DKK | (845) | 7,519 | (264) | 8,298 |
| | **4,923** | **37,998** | **5,423** | **32,811** |

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

# Notes - Supplementary information

## 25 Financial instruments and financial risks - continued

| (DKK '000) | Group 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 357,845 | 0 | 357,845 | 0 | 310,655 | 0 | 310,655 | 0 |
| EUR | 17,902 | 0 | 17,902 | 0 | 28,903 | 0 | 28,903 | 0 |
| PLN | 57,475 | 0 | 57,475 | 0 | 39,103 | 0 | 39,103 | 0 |
| CZK | (49) | 0 | (49) | 0 | (138) | 0 | (138) | 0 |
| RUB | (3,345) | 0 | (3,345) | 0 | (1,685) | 0 | (1,685) | 0 |
| GBP | 26,083 | 0 | 26,083 | 0 | 4,056 | 0 | 4,056 | 0 |
| Other | 3,251 | 0 | 3,251 | 0 | 5,766 | 0 | 5,766 | 0 |
| **Total** | **459,162** | **0** | **459,162** | **0** | **386,661** | **0** | **386,661** | **0** |

The table above illustrates H+H's interest rate exposure on financial instruments at the balance sheet date. At 31 December 2017, 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 2017 would reduce profit/loss before tax by DKK 4.5 million (2016: DKK 4.3 million).

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

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

| (DKK '000) | Group 2017 | | | |
|---|---|---|---|---|
| **Non-derivative financial instruments:** | **Carrying amount** | **0-1 year** | **1-5 years** | **Over 5 years** |
| Credit institutions and banks | 468,715 | 0 | 488,991 | 0 |
| Trade payables | 216,466 | 216,466 | 0 | 0 |
| **Total** | **685,181** | **216,466** | **488,991** | **0** |

| (DKK '000) | 2016 | | | |
|---|---|---|---|---|
| **Non-derivative financial instruments:** | **Carrying amount** | **0-1 year** | **1-5 years** | **Over 5 years** |
| Credit institutions and banks | 394,920 | 0 | 402,818 | 0 |
| Trade payables | 188,153 | 188,153 | 0 | 0 |
| **Total** | **583,073** | **188,153** | **402,818** | **0** |

### Hedge accounting under IAS 39

The fair value of those financial instruments that qualify for designation as hedge accounting under IAS 39 is recognised directly in other comprehensive income until the hedged items are recognised in the income statement. No such financial instruments were used in 2017 or 2016.

### Other derivatives that do not qualify for hedge accounting under IAS 39

The fair value of those financial instruments that do not qualify for hedge accounting under IAS 39 is recognised directly in the income statement. The fair value of the contracts amounts to DKK 0.4 million at 31 December 2017 (31. December 2016 DKK 0.2 million). The contracts concern future purchases of EUR paid in GBP for the period January - August 2018.

### Categories of financial instruments

| (DKK '000) | Group 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Trade receivables | 74.115 | 74.115 | 59.161 | 59.161 |
| Other receivables | 32.798 | 32.798 | 31.844 | 31.844 |
| Cash and cash equivalents | 13.054 | 13.054 | 8.259 | 8.259 |
| **Total receivables** | **119.967** | **119.967** | **99.264** | **99.264** |
| | | | | |
| Credit institutions and banks | 468.715 | 470.188 | 394.920 | 396.203 |
| Trade payables and other payables | 302.657 | 302.657 | 267.924 | 267.924 |
| **Total financial liabilities measured at amortised cost** | **771.372** | **772.845** | **662.844** | **664.127** |

### 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 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 2016.

## 26 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.

# Notes - Supplementary information

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 totalling DKK 31,500 thousand (2016: DKK 33,500 thousand) was received by the parent company from the remainder of the Group.

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

Trading with related parties is at arm's length.

### 27 Events after the balance sheet date

H+H International A/S and its subsidiary H+H Deutschland GmbH have on the 28th 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.

The acquisition is 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, especially in the UK and Polish markets. With the acquisition of HDKS, 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 German operations, including expansion possibilities within both aircrete and CSU operations
- Benefit from best practice sharing with the Polish operation of Grupa Silikaty
- Harvest synergies from the integration in Germany, estimated DKK 10 million when full integration is reached during the next three years

The purchase price of HDKS amounts to DKK 818 million and has been paid in cash. Estimated 2017 sales is DKK 500 million with an EBITDA of DKK 100 million. The business employs approximately 200 full-time employees.

With reference to note 4 "Other operating costs" has transaction costs of DKK 10 million been recognised in 2017 whereas DKK 8 million relates to the HDKS acquisition. Transaction costs due in 2018 - including a special transfer tax on real estate - are expected to be in the region of DKK 18 million. In addition, integration costs in the region of DKK 15-20 million are expected to be recognised as costs in profit/loss in Q1 2018.

The acquisition of HDKS was closed on 28th February 2018 and the initial accounting for the business combination is incomplete. Information on the fair value of each major class of assets acquired and liabilities assumed acquired in the business combination, the gross contractual amounts of receivable acquired (and the contractual cash flows not expected to be collected) and description of factors making up goodwill has therefore not been disclosed.

The acquisition of Grupa Silikaty Sp. Z.o.o in Poland has been approved by the anti-trust authorities and closing of the acquisition awaits approval from an agricultural agency.

The purchase price of Grupa Silikaty Sp. Z.o.o amounts to DKK 64 million. The purchase price will be paid according to a deferred payment schedule with instalments being paid at closing (approximately DKK 14 million) and by end of January 2019 and 2020, respectively (each approximately DKK 25 million). Estimated 2016 sales is DKK 157 million with and EBITDA of DKK 11 million. The business employs approximately 300 full-time employees.

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.

# 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 2017.

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 2017 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 2017.

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, 14 March 2018

**Executive Board:**

Michael Troensegaard Andersen
CEO

Ian Lea Perkins
CFO

**Board of Directors:**

Kent Arentoft
Chairman

Stewart Antony Baseley

Pierre-Yves Jullien

Henriette Schütze

Søren Østergaard Sørensen

Volker Christmann

# 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 2017, 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 2017, and of the results of their operations and cash flows for the financial year 1 January to 31 December 2017 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 ad-di-tional requirements applicable in Denmark. Our responsibilities under those standards and re-quire-ments 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 inde-pendent 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 applica-ble 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 conse-qutive engagement period of 6 years up to and including the financial year 2017.

### 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 fi-nancial year 1 January to 31 December 2017. 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 |
|---|---|
| **Accounting for defined benefit pension plan in H+H, UK**<br><br>Refer to Note [1] "General accounting policies" and "Critical accounting estimates", and Note 19 "Pension obligations" pages [59-62] in the consolidated financial statements. As of 31 December 2017, the Group has recognised a material pension obligation of DKK 150 million in accordance with IAS 19 primarily relating to H+H, UK.<br><br>The measurement of the pension obligations requires significant levels of judgement and technical expertise in choosing appropriate as-sumptions, methods and model. Small changes to key assumptions can have a material impact on the obligation, in particular:<br><br>▪ Discount rate<br>▪ Mortality rate, and<br>▪ Life expectancy<br><br>External actuaries have assisted the Group with measuring the pension obligations at 31 December 2017. | We have audited the Group's pension obliga-tions in H+H, UK as follows:<br><br>▪ Agreed the discount and mortality rates as well as the expected invest-ment income of the pension plan used in the measurement of the pension obligations to expectations determined by ourselves using our own internal actuarial specialists and compared the assumptions to national and industry accepted benchmark data.<br><br>▪ Evaluated the competencies of the external actuaries who have assisted the Group to calculate the pension obligations by evaluating their approach and association with the appropriate industry body.<br><br>▪ Recalculated the pension obliga-tions by applying the appropriate assumptions to determine the accuracy of the pension obligations at the balance sheet date.<br><br>▪ Performed testing of the assets of the pension plan and reviewed membership statistics of the scheme.<br><br>▪ Assessed the adequacy and ap-propriateness of disclosures in the notes and that they comply with the requirements of IAS 19. |

| Key audit matter | How the matter was addressed in the audit |
| --- | --- |
| **Impairment test Property, plant & equipment in H+H Russia**<br>Refer to Note [1] "General accounting policies" and "Critical accounting estimates", and Note [13] "Intangible assets and property, plant and equipment" where Management's annual impairment test is described in detail.<br><br>Property, plant and equipment in H+H Russia totals DKK 122 million as of 31 December 2017. No impairment losses have been recognised in 2017.<br><br>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.<br><br>The impairment test prepared by Management involves significant judgement about future annual revenue development, growth, gross margins, capacity costs, inflation and the discount rates applied.<br><br>In 2016, we also considered the impairment assessment of goodwill relating to H+H Poland to be a key audit matter. Due to a significant upward shift and better market conditions in the Polish market, we no longer consider the impairment test of goodwill in H+H Poland to be a key audit matter. | We have assessed whether the method and assumptions applied to calculate the value in use are appropriate. In this context, we have:<br><br>▪ Evaluated the assumptions, methods and model applied for impairment testing, including consistency with prior years.<br><br>▪ 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, inflation and the discount rates and discussed these with Management to assess their reasonableness.<br><br>▪ Compared the earnings expectations with the latest budget approved by the Board of Directors and earnings realised in the past.<br><br>▪ Tested Management's sensitivity analyses.<br><br>▪ Assessed the adequacy and appropriateness of disclosures in the notes and that they comply with the requirements of IAS 36.<br><br>▪ Consulted with subject matter experts regarding the valuation methodology and the assumptions applied. |

**Statement on the management commentary**
Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary 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 commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary 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 commentary.

**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, 14 March 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

| | |
|---|---|
| Anders Oldau Gjelstrup<br>State-Authorised<br>Public Accountant<br>MNE no 10777 | Casper Hjerresen Christensen<br>State-Authorised<br>Public Accountant<br>MNE no 41363 |

# H+H offices

## Group head office

H+H International A/S
Lautrupsgade 7, 6th Floor
2100 Copenhagen Ø
Denmark

Telephone: +45 35 27 02 00
E-mail: info@HplusH.com
www.HplusH.com
Company Reg. No.: 49 61 98 12

## Western Europe

H+H Benelux B.V.
Magnesiumstraat 1 A
6031 RV Nederweert
Netherlands
Tel.: +31 495 450169
www.HplusH.nl

H+H Danmark A/S
Skanderborgvej 234
8260 Viby J
Denmark
Tel.: +45 70 24 00 50
www.HplusH.dk

H+H Deutschland GmbH
Industristr. 3
23829 Wittenborn
Germany
Tel.: +49 4554 700-0
www.HplusH.de

H+H Sverige AB
Kantyxegatan 23
213 76 Malmø
Sweden
Tel.: +46 40 55 23 00
www.HplusH.se

H+H UK Limited
Celcon House, Ightham
Sevenoaks, Kent TN15 9HZ
UK
Tel.: +44 1732 886333
www.HplusH.co.uk

Heidelberger Kalksandstein GmbH
Malscher Straße 17
76448 Durmersheim
Germany
Tel.: +49 7245 806-0
www.heidelberger-kalksandstein.de

HKS Hunziker Kalksandstein AG
Aarauerstrasse 7
5200 Brugg
Switzerland
Tel.: +41 56 460 54 66
www.hunziker-kalksandstein.ch

## Eastern Europe

H+H Polska Sp. z o.o.
ul.Kupiecka 6
03-046 Warsaw
Poland
Tel.: +48 22 51 84 000
www.HplusH.pl

OOO H+H, Russia
Fuchika str 4, Letter K, Office 602
192102 St Petersburg
Russia
Tel.: +7 812 609-09-00
www.HplusH.ru

H+H International A/S
Lautrupsgade 7, 6th Floor
2100 Copenhagen Ø
Denmark

Telephone: +45 35 27 02 00
E-mail: info@HplusH.com

www.HplusH.com

Company Reg. No.: 49 61 98 12
LEI: 3800GJODT6FV8QM841