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Interim financial report Q1-Q3 2018

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"We are very satisfied to double our result over last year. We continue to deliver strong organic growth from a combination of strong market demand and the increased availability of products", says CEO Michael T. Andersen. "Integration of the acquired businesses is running to schedule and the financial results from the acquired businesses are in line with expectations."

Highlights for the period 1 January to 30 September 2018

DKK million	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017
Revenue	720	430	1,863	1,252
Organic growth	21%	(2%)	15%	2%
EBITDA before special items	143	71	300	181
EBIT margin before special items*	14%	12%	10%	10%
Special items	16	5	39	19
Financial gearing	1.9	2.0	1.9	2.0
Free cash flow excluding acquisitions and divestments	131	45	156	(8)

** Margin for Q1-Q3 2018 are impacted by the planned standstill of the Borough Green factory and accelerated depreciations in relation to orderbooks and trademarks from the acquired businesses.*

Other highlights

- Integration of the acquired businesses is running to schedule.
- The Borough Green factory is now getting close to full capacity utilization.
- The renovation of the CSU factory in Kavelstorf, Germany, was completed during the quarter.

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

Outlook for 2018

H+H updates its outlook for 2018:

- Growth before acquisitions and measured in local currencies is expected to be around 15% (previously around 11%).

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

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

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

- Investments excluding the acquisition of enterprises and related land, property and related deferred payments are expected to be in the region of DKK 135 million (previously 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.

Investor teleconference

H+H International A/S will host an investor teleconference on 15 November 2018 at 10.00 a.m. CET.
To attend the conference call dial +45 35 27 02 29 and meeting ID is 28238.

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

Key figures – H+H Group

Amounts in DKK million	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	Full-year 2017
Income statement					
Revenue	720	430	1,863	1,252	1,622
Gross profit	199	114	476	324	434
EBITDA before special items	143	71	300	181	242
EBITDA	127	66	261	162	212
EBIT before special items	103	51	185	124	165
EBIT	87	46	146	105	134
Net financials	(8)	(5)	(25)	(13)	(18)
Profit/loss before tax from continuing operations	79	41	121	91	116
Profit/loss from continuing operations	57	39	100	79	95
Profit/loss from discontinued operations	0	(1)	0	(3)	(5)
Profit/loss for the period	57	38	100	76	90
Balance sheet					
Non-current assets	1,900	874	1,900	874	929
Current assets	641	412	641	412	397
Share capital	180	108	180	108	108
Equity	978	355	978	355	377
Non-current liabilities	705	621	705	621	636
Current liabilities	858	310	858	310	313
Total equity and liabilities	2,541	1,286	2,541	1,286	1,326
Investments in property, plant and equipment	23	8	188	38	110
Investments in enterprises	0	0	744	0	0
Net Interest-bearing debt (NIBD)	598	435	598	435	458
Cash flow					
Cash flow from operating activities	154	53	239	29	83
Cash flow from investing activities	(23)	(8)	(931)	(72)	(144)
Cash flow from financing activities	(109)	(38)	751	57	66
Free cash flow	131	45	(692)	(43)	(61)
Financial ratios					
Gross margin	28%	27%	26%	26%	27%
EBIT margin before special items	14%	12%	10%	10%	10%
EBIT margin	12%	11%	8%	8%	8%
Return on invested capital (ROIC) *	13%	16%	13%	16%	16%
Return on equity **	20%	35%	20%	35%	27%
Solvency ratio	38%	28%	38%	28%	28%
Net interest-bearing debt/EBITDA	1.9	2.0	1.9	2.0	2.2
Share data					
Share price, end of period (DKK)	117.4	95.5	117.4	95.5	121.4
Book value per share, end of period (DKK)	54.4	33.1	54.4	33.1	35.1
Earnings per share	3.2	3.5	5.6	7.0	8.3
Diluted earnings per share	3.2	3.5	5.6	7.0	8.3

* Due to the acquisition of HDKS and Grupa Silikaty the method for calculating "Return on invested capital (ROIC)" has changed to better reflect a true and fair view. ROIC for Q1-Q3 2018 has been calculated as "Operating profit (EBIT)" held against the average invested capital, both measured on a twelve months basis.
** Due to the capital increase the method for calculating "Return on equity" has changed to better reflect a true and fair view. Return on equity for Q1-Q3 2018 has been calculated as "Profit/loss for the period" divided by average equity, both measured on a twelve months basis.

MANAGEMENT'S REVIEW

Revenue
Revenue in local currencies, excluding the acquired businesses (organic growth), increased by 21% in the third quarter. Revenue, including the acquired businesses, increased by 67% to DKK 720 million in the third quarter.

The organic growth is predominantly volume driven, overall prices have increased but this just absorbs cost inflation. The main drivers behind the organic growth is additional production output; in the UK following the commission of the Borough Green factory and in Poland additional output is achieved from continuous improvements and targeted investments.

Gross margin
The gross margin in the third quarter was 28%, against 27% in 2017. The improvement is stemming from improvements in the aircrete business.

Adjusted for the additional transport costs incurred in the UK due the sale of imported products from sister companies and the impact of the stand-still of the Borough Green factory, the gross margin would have been 29% vs. 27% in 2017.

Special items
Special items for the third quarter was DKK 16 million (2017: DKK 5 million), of which DKK 10 million is related to the import of products sold to the UK supplied by sister companies and DKK 6 million related to transaction and integration costs of HDKS.

The costs related to the import of products are expensed as “production costs” in the Income Statement.

EBITDA
EBITDA before special items for the third quarter was DKK 143 million and DKK 127 million after special items (2017: EBITDA before special items was DKK 71 million and DKK 66 million after special items).

The increase in EBITDA before special items is from both the aircrete business and the acquired CSU business.

Operating profit (EBIT)
Operating profit before special items for the third quarter was DKK 103 million and DKK 87 million after special items (2017: EBIT before special items was DKK 51 million and DKK 46 million after special items).

EBIT margin before special items for the third quarter was 14% (2017: 12%) and 12% (2017: 11%) after special items.

Profit before tax
Third-quarter profit before tax was DKK 79 million (2017: DKK 41 million), a change of DKK 38 million.

Eliminations and unallocated items
Unallocated items for the third quarter was DKK (12) million, a change of DKK (2) million compared to 2017 due to acquisition costs.

Purchase price allocation
The preliminary purchase price allocations for HDKS and Grupa Silikaty is reflected in the interim financial report for Q1-Q3 2018. The main impact on the income statement is that the order book from the date of purchase has been amortised whereas a total amortisation expense of DKK 15 million has been recognised.

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

For the above, an amortisation expense of DKK 3 million in total was recognised in the third quarter.

For further details on the purchase price allocation please refer to note 13 “Business Combinations”.

Comprehensive income
The total comprehensive income for the third quarter amounted to DKK 59 million which comprises of profit for the period of DKK 57 million, foreign exchange adjustments of DKK 4 million and actuarial losses less deferred tax of DKK (2) million.

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

Taxation
Tax for the third quarter was DKK (22) million (2017: DKK (2) million), a change of DKK (20) million.

Cash flow
Cash flow from operating activities in the third quarter was DKK 154 million (2017: DKK 53 million), a change of DKK 101 million.

The positive cash flow from operations is due to improved business performance and decreases in working capital, predominantly from decreases in stock levels following the period of stand still as a result of the Borough Green factory.

Cash flow from investing activities in the third quarter was DKK (23) million (2017: DKK (8) million).

Investments	Q3		Q1-Q3	
Amounts in DKK million	2018	2017	2018	2017
Western Europe	19	5	77	28
Eastern Europe	4	3	7	10
Acquisition of enterprises	0	0	744	35
Acquisition of land and property related to the acquired enterprises	0	0	104	0
Total	23	8	932	73

For Q1-Q3 the investments as defined in Outlook 2018 is DKK 84 million.

Third-quarter free cash flow was DKK 131 million (2017: DKK 45 million).

Cash flow from financing activities in the third quarter was DKK (109) million (2017: DKK (38) million). The financing activity is affected by repayments of long-term debt DKK (102) million.

Financing
Net interest-bearing debt totalled DKK 598 million at 30 September 2018, up DKK 140 million since the beginning of the year and up DKK 163 million since 30 September 2017.

The remaining part of the term loan facility DKK 350 million expires 28 January 2019. The company expects to extend the remaining part of the term loan facility until 31 March 2019, whereas the overall Group credit facility will be renegotiated to support our long-term strategy.

Third-quarter net financials totalled DKK (8) million (2017: DKK (5) million).

Equity
H+H's equity increased by DKK 601 million in the first three quarters predominantly from the net proceeds from a rights issue totalling DKK 504 million.

Equity	Q1-Q3	Q1-Q3
Amounts in DKK million	2018	2017
1 January	377	278
Profit/loss for the period	100	76
Actuarial gains/losses on pension plans	19	(1)
Foreign exchange adjustments	(16)	1
Capital increase	504	0
Other adjustments	(6)	1
30 Sep.	978	355

Most material risks and uncertainties
For most material risk and uncertainties, please refer to note 5 “Significant accounting estimates and judgements” and note 11 “Financial risks and derivative financial instruments”.

SEGMENTS

Revenue

	Q3		Q1-Q3	
Amounts in DKK million	2018	2017	2018	2017
Western Europe	511	319	1,335	943
Eastern Europe	209	111	528	309
Total	720	430	1,863	1,252

EBITDA before special items

	Q3		Q1-Q3	
Amounts in DKK million	2018	2017	2018	2017
Western Europe	96	60	210	167
Eastern Europe	56	21	119	45
Eliminations and unallocated items	(9)	(9)	(29)	(30)
Total	143	72	300	182

Profit before tax from continuing operations

	Q3		Q1-Q3	
Amounts in DKK million	2018	2017	2018	2017
Western Europe	51	41	81	111
Eastern Europe	40	10	85	10
Eliminations and unallocated items	(12)	(10)	(45)	(30)
Total	79	41	121	91

Western Europe
Third-quarter revenue in Western Europe, excluding the acquired companies, increased by 16% in local currencies (organic growth). Revenue including the acquired business increased by DKK 192 million to DKK 511 million, an increase of 60%.

Third-quarter organic growth was driven by higher sales volume and only minor price increases.

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

In the two main juridistrictions in the segment, the UK and Germany, markets are impacted by governmental stimuli programs. In the UK ‘Help to buy’ has been extended to 2023 but with more strict entry requirements from 2021. In Germany, programs are in place, but due to bottleneck issues on labour and transport these are expected to have less of an impact.

Third-quarter EBITDA before special items was DKK 96 million (2017: DKK 60 million), an increase of DKK 36 million.

Third-quarter EBITDA was adversely impacted by special items of DKK 12 million (2017: DKK 4 million).

There is an inflationary pressure on some of the main raw materials such as cement, lime and energy as well as bottleneck issues on the transport side.

Third-quarter profit before tax was DKK 51 million (2017: DKK 41 million), an increase of DKK 10 million.

Eastern Europe
Third-quarter revenue in Eastern Europe, excluding the acquired companies, increased by 36% in local currencies (organic growth). Revenue including the acquired business increased by DKK 98 million to DKK 209 million, an increase of 88%.

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

The improvements are predominantly arising from Poland. Indicators point into a slowing growth which is particular the case for the low-rise segment.

Third-quarter EBITDA before special item was DKK 56 million (2017: DKK 21 million), a change of DKK 35 million.

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

Third-quarter EBITDA was adversely impacted by special items of DKK 1 million (2017: DKK 1 million).

Third-quarter profit before tax was DKK 40 million, (2017: DKK 10 million), a change of DKK 30 million.

OUTLOOK FOR 2018

- H+H updates its outlook for 2018:
    - Growth before local acquisitions and measured in local currencies is expected to be around 15% (previously around 11%).
    - EBITDA before special items is expected to be DKK 390-410 million (previously DKK 370-410 million).
    - Approximately DKK 25-30 million costs are expected to be incurred as a result of the Borough Green factory upgrade and resulting need to import products from sister companies. The increased transportation costs will be expensed at the point of sale and treated as a special item (unchanged).
    - Approximately DKK 40 million for transaction and integration costs for HDKS and Grupa Silikaty will be expensed as special items (unchanged).
    - Investments excluding the acquisition of enterprises and related land, property and related deferred payments are expected to be in the region of DKK 135 million (previously 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.

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

- Economic growth in our geographical footprint.
- The commercial and operational excellence programmes continue to deliver improvements.
- Exchange rates, primarily for GBP, EUR, CHF, PLN and RUB, hold at their mid-November 2018 levels.
- Energy and raw material prices rise only in line with current expectations based on inflation and current agreements from their mid-November 2018 levels.
- The geopolitical situation does not result in changed market conditions.

ABOUT THE OUTLOOK FOR 2018

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

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

- Sales volumes and product mix
- Price competition in many of H+H's geographical markets
- Developments in the market for building materials
- Distribution factors
- Weather conditions
- Geopolitical developments

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

FINANCIAL CALENDAR FOR 2019

2018 Annual report.................................. 15 Mar. 2019

Annual general meeting including adoption of the annual report 2018 * .... 11 Apr. 2019

Interim financial report Q1 2019 ....13 May 2019
Interim financial report H1 2019 ....14 Aug. 2019
Interim financial report Q1-Q3 2019 ....13 Nov. 2019

* Items for the agenda must be submitted at least six weeks before the meeting (i.e. before 27 February 2019)

DISCLAIMER

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

STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS

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

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

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

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

Copenhagen, 14 November 2018

EXECUTIVE BOARD

Michael Troensegaard Andersen
CEO

Ian Lea Perkins
CFO

BOARD OF DIRECTORS

Kent Arentoft
Chairman

Stewart Antony Baseley

Volker Christmann

Pierre-Yves Jullien

Miguel Kohlmann

Henriette Schütze

CONDENSED INCOME STATEMENT

	Group				
	Q3	Q3	Q1-Q3	Q1-Q3	Full-year
Amounts in DKK million	2018	2017	2018	2017	2017
Revenue	720	430	1,863	1,252	1,622
Production costs	(521)	(316)	(1,387)	(928)	(1,188)
Gross profit	**199**	**114**	**476**	**324**	**434**
Sales and distribution costs	(33)	(24)	(100)	(76)	(102)
Administrative costs	(34)	(24)	(102)	(82)	(109)
Other operating income and expenses	(5)	0	(13)	(4)	(11)
Profit/loss before depreciation, amortisation and financial items (EBITDA)	**127**	**66**	**261**	**162**	**212**
Depreciation and amortization	(40)	(20)	(115)	(57)	(78)
Impairment losses	0	0	0	0	0
Operating profit/loss (EBIT)	**87**	**46**	**146**	**105**	**134**
Financial income	0	0	0	1	2
Financial expenses	(8)	(5)	(25)	(14)	(20)
Profit/loss before tax from continuing operations	**79**	**41**	**121**	**91**	**116**
Tax on profit/loss from continuing operations	(22)	(2)	(21)	(12)	(21)
Profit/loss from continuing operations	**57**	**39**	**100**	**79**	**95**
Loss from discontinued operations	0	(1)	0	(3)	(5)
Profit/loss for the period	**57**	**38**	**100**	**76**	**90**
Earnings per share (EPS-Basic)	5.3	3.5	9.3	7.0	8.3
Diluted earnings per share (EPS-D)	5.3	3.5	9.3	7.0	8.3

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Group				
	Q3	Q3	Q1-Q3	Q1-Q3	Full-year
Amounts in DKK million	2018	2017	2018	2017	2017
Profit/loss for the period	57	38	100	76	90
Items that may be reclassified subsequently to profit or loss:					
Foreign exchange adjustments, foreign companies	4	(4)	(16)	4	1
Tax on foreign exchange adjustments, foreign companies	0	0	0	(3)	0
	4	**(4)**	**(16)**	**1**	**1**
Items that will not be reclassified subsequently to profit or loss:					
Actuarial gains and losses	(2)	(26)	25	1	11
Tax on actuarial gains and losses	0	4	(6)	(2)	(3)
	(2)	**(22)**	**19**	**(1)**	**8**
Other comprehensive income after tax	**2**	**(26)**	**3**	**0**	**9**
Total comprehensive income	**59**	**12**	**103**	**76**	**99**

CONDENSED BALANCE SHEET

	Group			
Amounts in DKK million	30 Sep. 2018	31 Dec. 2017	30 Sep. 2017	31 Dec. 2016
ASSETS				
Non-current assets				
Goodwill	185	52	52	51
Intangible assets	245	5	4	4
Property, plant and equipment	1,439	844	787	820
Deferred tax assets	30	28	31	27
Financial assets	1	0	0	0
Total non-current assets	**1,900**	**929**	**874**	**902**
Current assets				
Inventories	268	268	231	182
Receivables	250	116	165	97
Cash and cash equivalents	123	13	16	8
Total current assets	**641**	**397**	**412**	**287**
TOTAL ASSETS	**2,541**	**1,326**	**1,286**	**1,189**
EQUITY AND LIABILITIES				
Equity				
Share capital	180	108	108	108
Retained earnings/losses	1,034	489	473	397
Other reserves	(236)	(220)	(226)	(227)
Total equity	**978**	**377**	**355**	**278**
Liabilities				
Pension obligations	128	150	154	171
Provisions	21	15	16	24
Deferred tax liability	161	0	0	0
Deferred payment, acquisition og subsidiary	24	0	0	0
Interest bearing debt	371	471	451	395
Total non-current liabilities	**705**	**636**	**621**	**590**
Current liabilities				
Interest bearing debt, short-term	350	0	0	0
Trade payables	277	217	204	188
Income tax	22	7	11	9
Deferred payment, acquisition of subsidiary	24	0	0	34
Provisions	10	3	7	10
Other current liabilities	175	86	88	80
Total current liabilities	**858**	**313**	**310**	**321**
Total liabilities	**1,563**	**949**	**931**	**911**
TOTAL EQUITY AND LIABILITIES	**2,541**	**1,326**	**1,286**	**1,189**
Net interest-bearing debt	598	458	435	387

CONDENSED CASH FLOW STATEMENT

Amounts in DKK million	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017
Operating profit/loss (EBIT)	87	46	146	105
Badwill recognised in connection to the acquistion of Grupa Silikaty	0	0	(12)	0
Financial income received	0	0	0	0
Financial expenses paid	(8)	(3)	(25)	(13)
Depreciation, amortisation and impairment losses	40	20	115	58
Change in working capital	48	(4)	46	(98)
Change in provisions	(4)	(3)	(14)	(9)
Income tax paid	(9)	(3)	(17)	(14)
Operating activities	**154**	**53**	**239**	**29**
Sale of property, plant and equipment	0	0	1	1
Acquisition of enterprises and related deferred payments	0	0	(744)	(35)
Acquisition of land and property related to the acquired enterprises	0	0	(104)	0
Acquisition of property, plant and equipment and intangible assets	(23)	(8)	(84)	(38)
Investing activities	**(23)**	**(8)**	**(931)**	**(72)**
Proceeds from / repayment of short and long-term debt	(102)	(39)	253	56
Proceeds from rights issue	0	0	504	0
Other financial activities	(7)	1	(6)	1
Financing activities	**(109)**	**(38)**	**751**	**57**
Cash flow from discontinued operations	0	(3)	0	(6)
Total cash flow	**22**	**4**	**59**	**8**
Cash and cash equivalents, opening	101	12	13	8
Cash related to the acquired enterprises	0	0	51	0
Foreign exchange adjustments of cash and cash equivalents	0	0	0	0
Cash and cash equivalents at 30 September	**123**	**16**	**123**	**16**

CONDENSED STATEMENT OF CHANGES IN EQUITY

Amounts in DKK million	Share capital	Translation reserve	Other reserves	Retained earnings	Proposed dividend	Total
Equity at 1 January 2018	**108**	**(220)**	**0**	**489**	**0**	**377**
Total changes in equity in 2018						
Profit/loss for the period	0	0	0	100	0	100
Other comprehensive income	0	(16)	0	19	0	3
Total comprehensive income	**0**	**(16)**	**0**	**119**	**0**	**103**
Issue of ordinary shares (7,193,346 shares)	72	0	0	432	0	504
Share-based payment	0	0	0	(6)	0	(6)
Total changes in equity in 2018	**72**	**(16)**	**0**	**545**	**0**	**601**
Equity at 30 September 2018	**180**	**(236)**	**0**	**1,034**	**0**	**978**
Equity at 1 January 2017	**108**	**(227)**	**0**	**397**	**0**	**278**
Total changes in equity 2017						
Profit/loss for the period	0	0	0	76	0	76
Other comprehensive income	0	1	0	(1)	0	0
Total comprehensive income	**0**	**1**	**0**	**75**	**0**	**76**
Share-based payment	0	0	0	1	0	1
Total changes in equity in 2017	**0**	**1**	**0**	**76**	**0**	**77**
Equity at 30 September 2017	**108**	**(226)**	**0**	**473**	**0**	**355**

NOTES

1. Accounting policies

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

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

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

2. Adoption of new and revised IFRSs

H+H International A/S has adopted all new or revised and amended International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) issued by IASB and endorsed by the EU effective for the financial year 2018. Based on an analysis carried out by H+H International A/S, the application of IFRS 9 and IFRS 15 has not had a material impact on the interim financial report for Q1-Q3 2018, and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs.

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

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

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

An updated preliminary assessment including the acquired businesses "HDKS" and Grupa Silikaty shows a positive impact of approximately DKK 22 million on EBITDA for the period 1 January - 31 December 2019 and an expected increase of the balance sheet by approximately DKK 112 million as at 1 January 2019. Due to the higher invested capital recognised ROIC and Solvency will be affected negatively by approximately 1 percentage point.

4. Segment information

Amounts in DKK million	Q3 2018						
	Western Europe			Eastern Europe			
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Reportable segments, total
Revenue, external	443	68	511	209	0	209	720
Revenue, internal	33	0	33	5	0	5	38
EBITDA	78	6	84	55	0	55	139
Depreciation and amortization	(27)	0	(27)	(13)	0	(13)	(40)
Impairment losses	0	0	0	0	0	0	0
Operating profit/loss (EBIT)	51	6	57	42	0	42	99
Net financials	(2)	(4)	(6)	(2)	0	(2)	(8)
Profit/loss before tax	49	2	51	40	0	40	91
Non-current assets	1,408	2	1,410	462	0	462	1,872
Investments in non-current assets	19	0	19	4	0	4	23
Investments in subsidiaries	0	0	0	0	0	0	0
Assets	1,739	72	1,811	593	0	593	2,404
Equity	893	14	907	318	(12)	306	1,213
Liabilities	846	58	904	275	12	287	1,191

Amounts in DKK million	Q3 2017						
	Western Europe			Eastern Europe			
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Reportable segments, total
Revenue, external	253	66	319	111	0	111	430
Revenue, internal	31	0	31	11	0	11	42
EBITDA	50	6	56	20	0	20	76
Depreciation and amortization	(12)	0	(12)	(8)	0	(8)	(20)
Impairment losses	0	0	0	0	0	0	0
Operating profit/loss (EBIT)	38	6	44	12	0	12	56
Net financials	1	(4)	(3)	(2)	0	(2)	(5)
Profit/loss before tax	38	3	41	10	0	10	51
Non-current assets	415	3	418	425	0	425	843
Investments in non-current assets	4	1	5	3	0	3	8
Investments in subsidiaries	0	0	0	0	0	0	0
Assets	665	69	734	517	0	517	1,251
Equity	543	(27)	516	193	(49)	144	660
Liabilities	121	96	217	323	50	373	590

Reconciliation of reportable segments' earnings before tax

	Q3	Q3
Amounts in DKK million	2018	2017
Segment profit before tax for reportable segments	91	51
Unallocated group costs, corporate functions	(12)	(10)
Total	79	41

Amounts in DKK million	Q1-Q3 2018						
	Western Europe			Eastern Europe			
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Reportable segments, total
Revenue, external	1,132	203	1,335	528	0	528	1,863
Revenue, internal	99	0	99	16	0	16	115
EBITDA	164	15	179	125	0	125	304
Depreciation and amortisation	(83)	(1)	(84)	(32)	0	(32)	(116)
Impairment losses	0	0	0	0	0	0	0
Operating profit (loss) (EBIT)	81	14	95	93	0	93	188
Net financials	(5)	(11)	(16)	(7)	(1)	(8)	(24)
Profit (loss) before tax	76	3	79	86	(1)	85	164
Non-current assets	1,408	2	1,410	462	0	462	1,872
Investments in non-current assets	181	0	181	7	0	7	188
Investments in subsidiaries	0	0	0	0	0	0	0
Assets	1,739	72	1,811	593	0	593	2,404
Equity	893	14	907	318	(12)	306	1,213
Liabilities	846	58	904	275	12	287	1,191

Amounts in DKK million	Q1-Q3 2017						
	Western Europe			Eastern Europe			
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Reportable segments, total
Revenue, external	748	195	943	309	0	309	1,252
Revenue, internal	95	0	95	29	0	29	124
EBITDA	134	18	152	40	0	40	192
Depreciation and amortisation	(35)	0	(35)	(22)	0	(22)	(57)
Impairment losses	0	0	0	0	0	0	0
Operating profit (loss) (EBIT)	99	18	117	18	0	18	135
Net financials	5	(11)	(6)	(7)	(1)	(8)	(14)
Profit (loss) before tax	104	7	111	11	(1)	10	121
Non-current assets	415	3	418	425	0	425	843
Investments in non-current assets	27	1	28	10	0	10	38
Investments in subsidiaries	0	0	0	35	0	35	35
Assets	665	69	734	517	0	517	1,251
Equity	543	(27)	516	193	(49)	144	660
Liabilities	121	96	217	323	50	373	590

Reconciliation of reportable segments' earnings before tax

Amounts in DKK million	Q1-Q3 2018	Q1-Q3 2017
Segment profit (loss) before tax for reportable segments	164	121
Unallocated group costs, corporate functions	(43)	(30)
Total	121	91

5. Significant accounting estimates and judgements

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

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

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

With reference to note 13 “Business combinations”, significant accounting estimates and judgement have been made in connection to assessing the preliminary fair value estimates for acquired net assets related to HDKS and Grupa Silikaty.

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

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

6. Seasonal and cyclical fluctuations

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

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

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

7. Pension obligations

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

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

Compared to December 2017, a value adjustment has been made relating to the UK pension plan, affecting total comprehensive income for the first three quarters of 2018. An updated extrapolation of the actuarial calculations carried out in connection to the interim period shows a decrease in underfunding of DKK 25 million net (the present value of the obligations exceeds the fair value of the plan assets), which less deferred tax amounts to DKK 19 million.

The total pension obligation as at 30 September 2018 amounts to DKK 128 million, compared to DKK 150 million as at 31 December 2017. The development in the pension obligations from 31 December 2017 till 30 September 2018 is due to payments, interest, value adjustment, currency adjustment and pension obligations from the HDKS acquisition.

8. Financial resources and cash flow

Net interest-bearing debt totalled DKK 598 million at 30 September 2018, up DKK 140 million since the beginning of the year and up DKK 163 million on 30 September 2017. The development is primary due to the acquisitions of HDKS and Grupa Silikaty which has been partly funded by the rights issue.

The remaining part of the term loan facility DKK 350 million expires 28 January 2019. The company expects to extend the remaining part of the term loan facility until 31 March 2018, whereas the overall Group credit facility will be renegotiated to support our long-term strategy. The H+H Group will continue to be dependent on debt financing.

The company's financing is subject to certain conditions e.g. the following financial covenants which has been fulfilled in the third quarter of 2018 and which are required – and with the current Outlook 2018 expected - to be fulfilled for the fourth quarter of 2018:

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

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

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

9. Share-based payment

A matching share scheme for 2018 has been launched for the Executive Board and certain key employees, cf. company announcement No. 367 of 13 September 2018, consequently the schemes for 2016-2018 are active. The 2018 scheme is largely identical to the schemes for 2016 and 2017 which are presented in the consolidated financial statements and annual report for 2017.

An amount of DKK 0.6 million was recognised under staff costs in the third quarter of 2018 in respect of the schemes for 2016-2018, against DKK 0.5 million in the same period in 2017.

To hedge future obligations to grant matching shares under the matching share schemes, H+H has acquired treasury shares of DKK 7 million in the third quarter of 2018.

10. Tax

Tax for the first three quarters shows an expense of DKK (21) million. The tax comprises of current tax expense for the period of DKK (32) million offset by adjustment of deferred tax DKK 11 million. The adjustment of deferred tax primarily relates to capitalisation of carry-forward losses related to Germany of DKK 15 million. Furthermore, profit for the first three quarters of DKK 121 million includes negative goodwill of DKK 12 million which is non-taxable. Adjusted for these, the effective tax rate amounts to approximately 21%.

11. Financial risks and derivative financial instruments

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

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

Derivative financial instruments are measured at fair value and in accordance with level 2 in the fair value hierarchy (IFRS 7). The fair value of the contracts amounts to DKK 0 million at 30 September 2018.

12. Related parties

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

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

13. Business combinations

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

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

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

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

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

On 5 October 2018, the purchase price was final agreed reducing the HDKS purchase price from DKK 824 to DKK 816 million. Estimated 2017 sales is DKK 500 million with an EBITDA of DKK 100 million. The business employs approximately 200 full-time employees.

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

With reference to the condensed income statement for Q1-Q3 2018 transaction and integration costs of DKK 25 million has been recognised as “Other operating income and expenses” of which DKK 24 million relates to the acquisition of HDKS and Grupa Silikaty. Transaction costs related to the acquisition of HDKS of DKK 8 million was occurred in 2017. In Q4 2018, further transaction related costs of DKK 5 million are expected.

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

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

After recognition of identifiable assets, liabilities and contingent liabilities at fair value, goodwill relating to the acquisition were determined at DKK 133 million. With reference to note 16 “Subsequent events”, on 5 October 2018, the purchase price was final agreed reducing the purchase price from DKK 824 to DKK 816 million, consequently reducing goodwill from DKK 133 million to DKK 125 million. Goodwill represents the value of the existing staff, access to new markets as well as the expected synergies from the acquisition. The recognised goodwill is not tax deductible.

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

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

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

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

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

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

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

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

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

Revenue and profit of the acquired business HDKS since 28 February 2018 included in the statement of comprehensive income for the reporting period amounts to DKK 328 million and DKK 36 million, respectively.

Revenue and profit of the acquired business Grupa Silikaty since 4 April 2018 included in the statement of comprehensive income for the reporting period amounts to DKK 116 million and DKK 13 million, respectively.

Revenue and profit of H+H including the acquired businesses HDKS and Grupa Silikaty for the current reporting period as though the acquisition date was 1 January 2018 amounts to DKK 1,975 million and DKK 102 million, respectively.

14. Share capital

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

15. Discontinued operations and assets held for sale

H+H own some land which is located close to residential areas or on areas that could be further developed. For 'Borough Green Gardens', no events have occurred in Q1-Q3 2018 materially affecting the assessment given in the annual report for 2017 re. page 12.

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

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

16. Events after the balance sheet date

On 5 October 2018, the purchase price for HDKS was final agreed reducing the purchase price from DKK 824 to DKK 816 million, consequently reducing goodwill from DKK 133 million to DKK 125 million.

Besides 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.