Company announcement No. 378, 2019
Interim financial report H1 2019

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"Strong organic growth and strong operational performance is delivering significant margin improvements which lead to the best financial result for a second quarter and for a first half year in the history of H+H", says CEO Michael T. Andersen. "In line with our strategy of participating in market restructuring in Germany we gained control of a joint venture of a calcium-silicate factory near Dresden. We continue to pursue further opportunities in Germany in line with the announced strategy."

Highlights for the period 1 January to 30 June 2019

DKK million	Q2 2019	Q2 2018	H1 2019	H1 2018
Revenue	770	709	1,436	1,143
Organic growth	7%	16%	13%	11%
EBITDA before special items	156	117	253	157
EBIT before special items	114	69	169	82
EBIT margin before special items	15%	10%	12%	7%
NIBD/EBITDA ratio before special items	1.2	2.5	1.2	2.5
Special items	0	7	0	23
Free cash flow excluding acquisitions and divestments	144	125	121	24

Outlook for 2019
H+H updated its outlook for 2019 on 8 August 2019:

- Growth before acquisitions and measured in local currencies is expected to be around 8% (previously around 7%).
- EBITDA before special items is expected to be DKK 510-550 million (previously DKK 460-510 million).
- EBIT before special items is expected to be DKK 330-370 million (previously DKK 280-330 million).
- Investments excluding acquisitions and divestments are expected to be in the region of DKK 140 million including investments for establishing a CSU production line near Gdansk, Poland and IFRS 16 effect (previously in the region of DKK 160 million).

Investor teleconference
H+H International A/S will host an investor teleconference today 14 August 2019 at 16:30 CEST.
To attend the conference call dial +45 35 27 02 29 and meeting ID is 502349.

H+H's core activity is the manufacture and sale of wall building materials, with a revenue in 2018 of DKK 2.5 billion. The main product lines are aircrete blocks and calcium silicate units used for the residential new building segment. H+H has 29 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 more than 1,600 employees and is listed on Nasdaq Copenhagen.

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

Key figures – H+H Group

Amounts in DKK million	Q2 2019	Q2 2018	H1 2019	H1 2018	Full-year 2018
Income statement					
Revenue	770	709	1,436	1,143	2,523
Gross profit	241	181	423	277	653
EBITDA before special items	156	117	253	157	410
EBITDA	156	110	253	134	345
EBIT before special items	114	69	169	82	228
EBIT	114	62	169	59	163
Profit/loss before tax	108	52	157	42	125
Profit/loss after tax for the period	89	57	128	43	125
Balance sheet					
Assets	2,833	2,617	2,833	2,617	2,421
Average invested capital (measured on a twelve months basis)	1,693	1,186	1,693	1,186	1,582
Investments in property, plant and equipment	16	31	27	61	138
Investments in enterprises	58	25	82	848	839
Net working capital	68	115	68	115	11
Equity	1,180	926	1,180	926	1,000
Net Interest-bearing debt (NIBD)*	602	723	602	723	525
Cash flow					
Cash flow from operating activities	160	156	148	85	370
Cash flow from investing activities	(74)	(56)	(109)	(908)	(973)
Cash flow from financing activities	61	(58)	103	860	679
Free cash flow	86	100	39	(823)	(603)
Financial ratios					
Organic growth	7%	16%	13%	11%	18%
Gross margin	31%	26%	29%	24%	26%
EBITDA margin before special items	20%	17%	18%	14%	16%
EBITDA margin	20%	16%	18%	12%	14%
EBIT margin before special items	15%	10%	12%	7%	9%
EBIT margin	15%	9%	12%	5%	6%
Return on invested capital (ROIC)	16%	11%	16%	11%	10%
Solvency ratio	42%	35%	42%	35%	41%
NIBD/EBITDA before special items	1.2	2.5	1.2	2.5	1.3
NIBD/EBITDA ratio	1.3	2.9	1.3	2.9	1.5
Share data					
Share price, end of period (DKK)	105	101	105	101	95
Book value per share, end of period (DKK)	66	11	66	11	56
Earnings per share	4.9	5.3	7.1	4.0	8.7
Diluted earnings per share	4.9	5.3	7.1	4.0	8.7

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

MANAGEMENT'S REVIEW

Revenue

Revenue in local currencies, excluding the acquired business (organic growth), increased by 7% in the second quarter. Revenue, including the acquired business, increased by 9% to DKK 770 million in the second quarter.

The organic growth is predominantly driven by Poland and the UK and prices are higher than last year in all regions. The strong sales in the first quarter softened the volume demand in Germany in the second quarter.

The net impact from currency exchange rates are DKK 2 million.

Gross margin

The gross margin in the second quarter was 31%, against 26% in 2018. Adjusted for the additional transport costs incurred in the UK and the planned stand still of the factory in Borough Green, the gross margin would have been 28% in 2018.

The increase this year is predominantly due to better pricing, but also strong operational performance with higher output including the upgraded Borough Green delivering the projected efficiencies.

EBITDA

EBITDA for the second quarter was DKK 156 million (2018: EBITDA before special items was DKK 117 million and DKK 110 million after special items).

Poland and the UK are the main contributors to the increase in the quarter.

The net impact from currency exchange rates are DKK 1 million and impact from IFRS 16 is DKK 7 million.

Depreciation and amortization

Depreciation and amortization for the second quarter was DKK (42) million (2018: DKK (48) million).

Amortizations of DKK 2 million (2018: DKK 13 million) is related to customer relations and order backlog acquired in relation to business combinations.

Operating profit (EBIT)

Operating profit for the second quarter was DKK 114 million (2018: EBIT before special items was DKK 69 million and DKK 62 million after special items).

EBIT margin for the second quarter was 15% (2018: 10% before special items and 9% after special items).

Profit before tax

Second-quarter profit before tax was DKK 108 million (2018: DKK 52 million), a change of DKK 56 million.

Comprehensive income

The total comprehensive income for the second quarter amounted to DKK 100 million (2018: DKK 50 million).

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

Taxation

Tax for the second quarter was DKK (19) million (2018: DKK 5 million), a change of DKK (24) million.

Cash flow

Cash flow from operating activities in the second quarter was DKK 160 million (2018: DKK 156 million), a change of DKK 4 million.

Cash flow from investing activities in the second quarter was DKK (74) million (2018: DKK (56) million).

Investing activities include the acquisition of 51% of the shares in Baustoffwerke Dresden GmbH & Co. KG of DKK (58) million.

Second-quarter free cash flow was DKK 86 million (2018: DKK 100 million).

Cash flow from financing activities in the second quarter was DKK 61 million (2018: DKK (58) million).

Financing

Net interest-bearing debt totaled DKK 602 million at 30 June 2019, an increase of DKK 77 million since the beginning of the year and a decrease of DKK 121 million since 30 June 2018. The development since the beginning of the year is primary due to implementation of IFRS 16, where a lease obligation of DKK 91 million was recognised 1 January 2019, the acquisition of Baustoffwerke Dresden GmbH & Co. KG offset by normal seasonal earnings and development in working capital.

Second-quarter net financial expenses totaled DKK (6) million (2018: DKK (10) million).

Equity

The consolidated equity increased by DKK 180 million in the first half of the year.

Equity		
	H1	H1
Amounts in DKK million	2019	2018
1 January	1,000	377
Profit/loss for the period	128	43
Actuarial gains/losses on pension plans	3	21
Foreign exchange adjustments	14	(20)
Capital increase	0	504
Non-controlling interests arising from acquisition	34	0
Other adjustments	1	1
30 June	1,180	926

Most material risks and uncertainties

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

SEGMENTS

Revenue				
	Q2		H1	
Amounts in DKK million	2019	2018	2019	2018
Western Europe	536	517	1,000	824
Eastern Europe	234	192	436	319
Total	770	709	1,436	1,143

EBITDA before special items				
	Q2		H1	
Amounts in DKK million	2019	2018*	2019	2018*
Western Europe	107	86	173	114
Eastern Europe	68	41	117	63
Unallocated items	(19)	(10)	(37)	(20)
Total	156	117	253	157

*Comparative figures for EBITDA have been adjusted between "Western Europe" and "Unallocated items"

Operating profit (EBIT)				
	Q2		H1	
Amounts in DKK million	2019	2018	2019	2018
Western Europe	74	40	108	40
Eastern Europe	59	38	99	51
Unallocated items	(19)	(16)	(38)	(32)
Total	114	62	169	59

Western Europe

Second-quarter revenue in Western Europe, excluding the acquired companies, increased by 1% in local currencies (organic growth). Revenue including the acquired business increased by DKK 19 million to DKK 536 million, an increase of 4%.

Second-quarter organic growth was driven by price increases. Sales volumes decreased compared to last year in Germany and Nordics following a strong first quarter of 2019.

The two main markets, the UK and Germany, 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.

Our key UK customers continue to report strong order books despite uncertainties around Brexit.

The German one-two family segment is expected to be flat for 2019 whereas the multi-family segment is expected to show growth. The trading in the first half of the year is in line with this.

Second-quarter EBITDA before special items was DKK 107 million (2018: DKK 86 million), an increase of DKK 21 million.

Second-quarter operating profit (EBIT) was DKK 74 million (2018: DKK 40 million), an increase of DKK 34 million.

H+H International A/S and its subsidiary H+H Deutschland GmbH have on the 29 April 2019 closed the acquisition with Heidelberger KS Beteiligungen Deutschland GmbH & Co. KG to acquire 51% of the shares in Baustoffwerke Dresden GmbH & Co. KG. The Company has a sales subsidiary in the Czech Republic. The financial results are consolidated on a 100% basis into the Western European segment.

Eastern Europe

Second-quarter revenue in Eastern Europe, excluding the acquired companies, increased by 21% in local currencies (organic growth). Revenue including the acquired business increased by DKK 42 million to DKK 234 million, an increase of 22%.

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

Poland is constrained on capacity and volumes are only slightly higher than last year, hence increasing prices are the main driver for the growth. The market outlook continues to be positive for Poland. Russia also had a strong quarter with higher volume and higher prices.

Second-quarter EBITDA before special items was DKK 68 million (2018: DKK 41 million), a change of DKK 27 million.

Second-quarter operating profit (EBIT) was DKK 59 million, (2018: DKK 38 million), a change of DKK 21 million.

H+H are in talks and negotiations concerning potential divestment of its activities in Russia, cf. company announcement No. 374 of 25 April 2019.

OUTLOOK FOR 2019

- H+H updated its outlook for 2019 on 8 August 2019:
    - Growth before acquisitions and measured in local currencies is expected to be around 8% (previously around 7%).
    - EBITDA before special items is expected to be DKK 510-550 million (previously DKK 460-510 million).
    - EBIT before special items is expected to be DKK 330-370 million (previously DKK 280-330 million).
    - Investments excluding acquisitions and divestments are expected to be in the region of DKK 140 million including investments for establishing a CSU production line near Gdansk, Poland and IFRS 16 effect (previously in the region of DKK 160 million).

ABOUT THE OUTLOOK FOR 2019

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

- Potential divestment of H+H Russia (cf. company announcement no. 374 of 25 April 2019) can be contained within the current guidance.
- Brexit will not lead to a significant decrease in demand.
- Continuous economic growth in our geographical footprint.
- The excellence programs continue to deliver improvements.
- Exchange rates, primarily for GBP, EUR and PLN, hold at their mid-August 2019 levels.
- Positive impact from IFRS 16 on EBITDA is in the region of DKK 22 million.
- Positive impact from IFRS 16 on EBIT is in the region of DKK 4 million
- Energy and raw material costs expected to rise at levels exceeding inflation.

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

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

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

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

FINANCIAL CALENDAR FOR 2019

Interim financial report Q1-Q3 2019 ....13 Nov. 2019

STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS

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

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

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

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

Copenhagen, 14 August 2019

EXECUTIVE BOARD

Michael Troensegaard Andersen
CEO

Peter Klovgaard-Jørgensen
CFO

BOARD OF DIRECTORS

Kent Arentoft
Chairman

Stewart Antony Baseley

Volker Christmann

Pierre-Yves Jullien

Miguel Kohlmann

Helen MacPhee

CONDENSED INCOME STATEMENT

	Group				
	Q2	Q2	H1	H1	Full-year
Amounts in DKK million	2019	2018	2019	2018	2018
Revenue	770	709	1,436	1,143	2,523
Production costs	(529)	(528)	(1,013)	(866)	(1,870)
Gross profit	**241**	**181**	**423**	**277**	**653**
Sales and distribution costs	(38)	(36)	(79)	(67)	(147)
Administrative costs	(44)	(37)	(87)	(68)	(150)
Other operating income and expenses	(3)	2	(4)	(8)	(11)
Profit/loss before depreciation, amortisation and financial items (EBITDA)	**156**	**110**	**253**	**134**	**345**
Depreciation and amortization	(42)	(48)	(84)	(75)	(162)
Impairment losses	0	0	0	0	(20)
Operating profit/loss (EBIT)	**114**	**62**	**169**	**59**	**163**
Financial income	0	0	0	0	1
Financial expenses	(6)	(10)	(12)	(17)	(39)
Profit/loss before tax	**108**	**52**	**157**	**42**	**125**
Tax on profit/loss from continuing operations	(19)	5	(29)	1	0
Profit/loss for the period	**89**	**57**	**128**	**43**	**125**
Profit/loss for the period attributable to:					
H+H International A/S' shareholders	88	57	127	43	125
Non-controlling interests	1	0	1	0	0
Profit/loss for the period	**89**	**57**	**128**	**43**	**125**
Earnings per share (EPS-Basic)	4.9	5.0	7.1	4.0	8.7
Diluted earnings per share (EPS-D)	4.9	5.0	7.1	4.0	8.7

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Group				
	Q2	Q2	H1	H1	Full-year
Amounts in DKK million	2019	2018	2019	2018	2018
Profit/loss for the period	**89**	**57**	**128**	**43**	**125**
Items that may be reclassified subsequently to profit or loss:					
Foreign exchange adjustments, foreign companies	3	(15)	14	(20)	(22)
Tax on foreign exchange adjustments, foreign companies	0	(1)	0	0	0
	3	(16)	14	(20)	(22)
Items that will not be reclassified subsequently to profit or loss:					
Actuarial gains and losses	11	12	6	27	26
Tax on actuarial gains and losses	(3)	(3)	(3)	(6)	(4)
	8	9	3	21	22
Other comprehensive income after tax	**11**	**(7)**	**17**	**1**	**0**
Total comprehensive income	**100**	**50**	**145**	**44**	**125**

CONDENSED BALANCE SHEET

	Group		
	30 June	31 Dec.	30 June
Amounts in DKK million	2019	2018	2018
ASSETS			
Non-current assets			
Goodwill	197	175	185
Other intangible assets	266	239	253
Property, plant and equipment	1,564	1,424	1,445
Deferred tax assets	11	13	31
Financial assets	8	1	1
Total non-current assets	**2,046**	**1,852**	**1,915**
Current assets			
Inventories	251	265	295
Receivables	247	171	306
Cash and cash equivalents	289	133	101
Total current assets	**787**	**569**	**702**
TOTAL ASSETS	**2,833**	**2,421**	**2,617**
EQUITY AND LIABILITIES			
Equity			
Share capital	180	180	180
Retained earnings/losses	1,194	1,063	986
Other reserves	(229)	(243)	(240)
Equity attributable to H+H International A/S' shareholders	1,145	1,000	926
Equity attributable to non-controlling interests	35	0	0
Total equity	**1,180**	**1,000**	**926**
Non-current liabilities			
Pension obligations	113	127	131
Provisions	27	17	22
Deferred tax liability	138	118	158
Deferred payment, acquisition og subsidiary	0	24	23
Interest-bearing debt	792	303	474
Lease liability	90	4	0
Total non-current liabilities	**1,160**	**593**	**808**
Current liabilities			
Interest-bearing debt	0	350	350
Lease liability	9	1	0
Trade payables	278	291	306
Income tax	25	12	13
Deferred payment, acquisition of subsidiary	24	24	24
Provisions	5	16	10
Other current liabilities	152	134	180
Total current liabilities	**493**	**828**	**883**
Total liabilities	**1,653**	**1,421**	**1,691**
TOTAL EQUITY AND LIABILITIES	**2,833**	**2,421**	**2,617**
Net interest-bearing debt	602	525	723

CONDENSED CASH FLOW STATEMENT

Amounts in DKK million	Q2 2019	Q2 2018	H1 2019	H1 2018
Operating profit/loss (EBIT)	114	62	169	59
Badwill recognised in connection to the acquistion of Grupa Silikaty	0	(12)	0	(12)
Financial income received	0	0	0	0
Financial expenses paid	(6)	(10)	(12)	(17)
Depreciation, amortisation and impairment losses	42	48	84	75
Change in working capital	34	79	(56)	(2)
Change in provisions and pension contributions paid	(8)	(7)	(13)	(10)
Income tax paid	(16)	(4)	(24)	(8)
Operating activities	**160**	**156**	**148**	**85**
Sale of property, plant and equipment	0	0	0	1
Acquisition of enterprises and related deferred payments	(58)	(25)	(82)	(744)
Acquisition of land and property related to the acquired enterprises	0	0	0	(104)
Acquisition of property, plant and equipment and intangible assets*	(16)	(31)	(27)	(61)
Investing activities	**(74)**	**(56)**	**(109)**	**(908)**
Proceeds from / repayment of short and long-term debt	66	(564)	111	355
Proceeds from rights issue	0	504	0	504
Change in lease liabilities	(6)	0	(10)	0
Other financial activities	1	2	2	1
Financing activities	**61**	**(58)**	**103**	**860**
Total cash flow	**147**	**42**	**142**	**37**
Cash and cash equivalents, opening	128	36	133	13
Cash related to the acquired enterprises	14	23	14	51
Foreign exchange adjustments of cash and cash equivalents	0	0	0	0
Cash and cash equivalents at 30 June	**289**	**101**	**289**	**101**

*Cash flow from acquisitions of property, plant and equipment and intangible assets is offset by financial leases (IFRS 16) of DKK 4 million for second quarter 2019 and DKK 13 million for first half 2019.

CONDENSED STATEMENT OF CHANGES IN EQUITY

Amounts in DKK million	Share capital	Translation reserve	Retained earnings	H+H shareholdersshare	Non con-trolling interests' share	Total
Equity at 1 January 2019	**180**	**(243)**	**1,063**	**1,000**	**0**	**1,000**
Total changes in equity in 2019						
Profit/loss for the period	0	0	127	127	1	128
Other comprehensive income	0	14	3	17	0	17
Total comprehensive income	**0**	**14**	**130**	**144**	**1**	**145**
Share-based payment	0	0	1	1	0	1
Non-controlling interests arising from acquisition	0	0	0	0	34	34
Total changes in equity in 2019	**0**	**14**	**131**	**145**	**35**	**180**
Equity at 30 June 2019	**180**	**(229)**	**1,194**	**1,145**	**35**	**1,180**
Equity at 1 January 2018	**108**	**(220)**	**489**	**377**	**0**	**377**
Total changes in equity 2018						
Profit/loss for the period	0	0	43	43	0	43
Other comprehensive income	0	(20)	21	1	0	1
Total comprehensive income	**0**	**(20)**	**64**	**44**	**0**	**44**
Issue of ordinary shares (7,193,346 shares)	72	0	432	504	0	504
Share-based payment	0	0	1	1	0	1
Total changes in equity in 2018	**72**	**(20)**	**497**	**549**	**0**	**549**
Equity at 30 June 2018	**180**	**(240)**	**986**	**926**	**0**	**926**

NOTES

1. Accounting policies

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

H+H has implemented IFRS 16 affecting the accounting policy for recognition of leases. IFRS 16 requires that all leases (except for short-term leases and leases of low-value assets) have to be recognized in the balance sheet as a right-of-use asset and lease liability measured at the present value of future lease payments. The right-of-use asset is subsequently depreciated over the lease term in a similar way to other assets such as property, plant and equipment, and interest on the lease liability is calculated in a similar way to finance leases under IAS 17 Leases.

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

2. Adoption of new and revised IFRSs

H+H International A/S has adopted all new or revised and amended International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) issued by IASB and endorsed by the EU effective for the financial year 2019. For the first-half, the implementation of IFRS 16 has impacted the EBITDA by DKK 12 million, EBIT by DKK 2 million and operating cash flow by DKK 10 million. Non-current assets as of 30 June 2019 is increased by DKK 94 million and net interest-bearing debt by DKK 99 million. The impact is in line with expectations disclosed in the Annual Report for 2018.

3. Segment information

Amounts in DKK million	Q2 2019			Q2 2018		
	Western Europe	Eastern Europe	Reporting segments	Western Europe	Eastern Europe	Reporting segments
Revenue, external	536	234	770	517	192	709
Revenue, internal	41	1	42	37	8	45
EBITDA before special items	107	68	175	86	41	127
Operating profit/loss (EBIT)	74	59	133	40	38	78
Invested capital	1,394	433	1,827	1,339	398	1,737
Other segment information						
Special items	0	0	0	8	(7)	1
Depreciation, amortisation and impairment losses	31	9	40	38	10	48
Non-current assets	1,533	493	2,026	1,178	468	1,646
Total segment assets	2,010	739	2,749	1,662	608	2,270

Amounts in DKK million	H1 2019			H1 2018		
	Western Europe	Eastern Europe	Reporting segments	Western Europe	Eastern Europe	Reporting segments
Revenue, external	1,000	436	1,436	824	319	1,143
Revenue, internal	86	1	87	66	12	78
EBITDA before special items	173	117	290	114	63	177
Operating profit/loss (EBIT)	108	99	207	40	51	91
Invested capital	1,401	433	1,834	1,339	398	1,737
Other segment information						
Special items	0	0	0	17	(6)	11
Depreciation, amortisation and impairment losses	63	18	81	57	18	75
Non-current assets	1,533	493	2,026	1,178	468	1,646
Total segment assets	2,010	739	2,749	1,662	608	2,270

Reconciliation of reportable segments' earnings before tax

	Q2	Q2	H1	H1
Amounts in DKK million	2019	2018	2019	2018
Operating profit (EBIT) for reportable segments	133	78	207	91
Unallocated group costs, corporate functions	(19)	(16)	(38)	(32)
Financial income	0	0	0	0
Financial expenses	(6)	(10)	(12)	(17)
Total	108	52	157	42

4. Significant accounting estimates and judgements

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

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

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

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

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

5. Seasonal and cyclical fluctuations

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

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

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

6. Pension obligations

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

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

Compared to December 2018, a value adjustment has been made relating to the UK pension plan, affecting total comprehensive income. An updated extrapolation of the actuarial calculations carried out in connection to the interim period shows a decrease in underfunding of DKK 6 million (the present value of the obligations exceeds the fair value of the plan assets).

The total pension obligation as at 30 June 2019 amounts to DKK 113 million, compared to DKK 127 million as at 31 December 2018. The development in the pension obligations from 31 December 2018 till 30 June 2019 is due to payments, interest, value adjustment and currency adjustment.

7. Financial resources and cash flow

Net interest-bearing debt, including financial leases, totalled DKK 602 million at 30 June 2019, up DKK 77 million since the beginning of the year. The development since the beginning of the year is primary due to implementation of IFRS 16, where a lease obligation of DKK 91 million was recognised 1 January 2019, and the acquisition of Baustoffwerke Dresden GmbH & Co. KG offset by normal seasonal earnings and development in working capital.

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

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

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

8. Share-based payment

The matching share schemes for 2017 and 2018 are active and presented in consolidated financial statements in the Annual Report 2018. A matching share scheme was launched in Q2 2019. The scheme is largely identical to the schemes for 2017 and 2018. An amount of DKK 0.8 million was recognised under staff costs in the second quarter of 2019, against DKK 1.1 million in the same period in 2018.

9. Tax

Tax for the second quarter shows an expense of DKK (19) million which comprise of current tax DKK (24) million offset by adjustment of deferred tax DKK 5 million. Tax for the first half shows an expense of DKK (29) million which comprise of current tax DKK (36) million offset by adjustment of deferred tax DKK 7 million.

10. Financial risks and derivative financial instruments

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

11. Related parties

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

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

12. Business combinations

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

BWD consists of 51% ownership of the legal entity Baustoffwerke Dresden GmbH & Co. KG which own 100% of VAPIS stavebni hmoty s.r.o. (VAPIS), a sales company located in the Czech Republic.

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

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

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

The purchase price allocation shows acquired net assets at a fair value of DKK 70 million, hereof minorities' share of DKK 34 million, and related goodwill were consequently determined at DKK 22 million by applying the "Acquired goodwill method". Goodwill represents the value of the existing staff, access to new markets as well as the expected synergies from the acquisition.

Goodwill was DKK 175 million at the beginning of the year. Due to the acquisition of BWD, additional goodwill of DKK 22 million was recognised, whereas goodwill as of 30 June 2019 amount to DKK 197 million.

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

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

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

The fair value of the acquired raw materials and goods for sale is determined at replacement cost.

An estimate is made of the value of the acquired trademarks as well as the expected useful life of these. The fair value of the acquired trademarks is calculated by discounting the royalty payments that will be saved through owning the right of use of the trademark (the relief-from-royalty method). An after-tax discount rate of 12% has been applied.

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

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

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

Revenue and profit after tax of the acquired business BWD since 29 April 2019 included in the statement of comprehensive income for the reporting period amounts to DKK 13 million and DKK 2 million, respectively.

Revenue and profit after tax of H+H including the acquired businesses BWD for the current reporting period as though the acquisition date was 1 January 2019 amounts to DKK 1,453 million and DKK 127 million, respectively.

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

Amounts in DKK million	**BWD 29 April 2019**
Customer relations	39
Order book	3
Trademarks	1
Property, plant and equipment	41
Land and buildings	34
Financial assets	0
Receivables	8
Inventories	7
Cash	14
Acquired assets	**147**
Pension obligations	1
Provisions	7
Payables	8
Financial debt	28
Other current liabilities	7
Deferred tax	26
Assumed liabilities	**77**
Total identifiable acquired net assets	70
Hereof minority interests' share	(34)
Goodwill in connection with the acquisition	22
Purchase price	**58**
Movements in cash flow in connection with the acquisition:	
Purchase price	58
Of which cash is acquired	(14)
Of which financial debt is acquired	28
Net cash flow in connection with the acquisition	**72**

13. Discontinued operations and assets held for sale

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

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

14. Events after the balance sheet date

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.