Annual Report 2006

H+H International A/S

build with ease

H+H profile

H+H International A/S is the parent company of the H+H Group, which consists of subsidiaries in, so far, 10 countries and has a total of approx. 1,400 employees.

H+H is dedicated solely to the development, manufacture and sale of aircrete and is among the leading suppliers of aircrete in the countries in which it operates. The locations of factories and sales offices are shown on the map on page 68. H+H's customers are primarily contractors, developers and builders' merchants.

H+H has a clear growth strategy:

- organic growth of H+H's existing geographical markets by continued implementation and development of H+H's value proposition, Build with ease;
- geographical growth by acquisition or establishment of aircrete factories and sales offices in new markets.

Further details of H+H's strategy and the related work are given under "Strategy status" on pages 67 and 68.

Contents

Five-year summary

Income statement (DKKm)	2006	2005	2004	2003	2002
Revenue	1,662.4	1,354.4	1,370.9	1,583.3	1,397.4
Gross profit	922.8	807.8	875.5	970.3	852.3
Operating profit (EBIT)*	128.9	141.6	195.2	168.6	50.2
Net financing costs	(14.8)	6.2	(5.2)	(10.5)	(4.9)
Profit from continuing operations before tax	114.0	147.8	190.0	158.1	45.3
Profit from continuing operations after tax	74.3	100.3	136.7	109.8	30.7
Profit for the year	74.3	100.3	141.6	109.8	30.7
Balance sheet - assets (DKKm)					
Non-current assets	1,248.4	1,046.6	860.7	880.5	949.5
Investments in property, plant and equipment	156.0	122.1	114.7	66.1	63.1
Current assets	389.8	372.9	429.0	388.2	345.6
Total assets	1,638.2	1,419.5	1,289.7	1,268.7	1,295.1
Balance sheet - equity and liabilities (DKKm)					
Share capital	116.0	116.0	116.0	116.0	116.0
Equity	870.4	827.7	745.3	668.9	603.5
Non-current liabilities	180.9	160.6	263.9	288.2	322.1
Current liabilities	586.8	431.2	280.5	311.6	369.5
Total equity and liabilities	1,638.2	1,419.5	1,289.7	1,268.7	1,295.1
Financial ratios					
Gross margin	55.5%	59.6%	63.9%	61.3%	61.0%
Operating margin (EBITA margin)	7.8%	10.5%	14.2%	10.6%	3.6%
Return on invested capital	10.6%	14.4%	22.0%	18.1%	5.8%
Return on equity	8.8%	12.8%	20.0%	17.3%	5.0%
Solvency ratio	53.1%	58.3%	57.8%	52.7%	46.6%
Average number of shares outstanding (per DKK 100)	1,147,872	1,137,012	1,119,006	1,083,120	1,081,343
Share price, year-end (DKK)	1,842	1,351	1,175	1,270	660
Book value per share, year-end (DKK)	750	713	642	577	520
Price/book value	2.5	1.9	1.8	2.2	1.3
Price earnings ratio (PE)	28.3	15.3	9.3	13.4	25.1
Earnings per DKK 100 share (EPS)	65.0	88.2	126.6	101.4	28.4
Diluted earnings per DKK 100 share (EPS-D)	64.9	87.5	124.3		
Dividend per share	20.0	35.0	35.0	30.0	25.0
Payout ratio	31.1%	40.5%	28.7%	31.7%	94.4%
Average full-time equivalent staff	1,385	712	761	1,101	1,147

The comparative figures for 2002-2003 have not been restated to reflect the changes in the accounting policies, but have been prepared in accordance with the existing accounting policies based on the provisions in the Danish Financial Statements Act and Danish Accounting Standards.

Earnings per share and diluted earnings per share for 2004-2006 have been calculated in accordance with IAS 33 (note 20). The other financial ratios for 2004-2006 have been calculated in accordance with the Danish Society of Financial Analysts' 'Recommendations & Ratios 2005'. Reference is made to definitions and concepts in note 1 "Accounting policies".

* No amortisations were charged in 2006 and 2005. EBIT is consequently identical to EBITA.

Summary

Profit before tax was DKK 114.0m (2005: DKK 147.8m), slightly ahead of the most recently announced outlook of DKK 100-110m. The original profit forecast was DKK 90-110m.

- Revenue amounted to DKK 1,662m, up from DKK 1,354m in 2005, equivalent to a 22.7% increase. Excluding revenue from the acquired activities, revenue was up 9.6%. Revenue showed an upward trend within all segments.

- At the start of 2006, H+H acquired two Polish aircrete factories in addition to the three acquired at the end of 2005. The integration of the factories proceeded to plan in 2006.

- On 2 May 2006 H+H acquired an aircrete factory in the north-western part of the Czech Republic. Besides providing H+H with access to the highly attractive Czech aircrete market, the factory boosts H+H's sales potential in other markets.

- The work on the implementation of the principles in H+H's value proposition – Build with ease – was a focus area for all the Group's companies during the year.

- The new Wittenborn II factory in Northern Germany was inaugurated in mid-2006. With the new factory H+H will, in future, be self-sufficient in reinforced aircrete products for the Scandinavian and German markets. The new Wittenborn II factory is an important strategic element in the future development of new systems and solutions for more widespread and efficient use of aircrete in construction.

- Equity increased by DKK 42.7m, standing at DKK 870.4m at the end of 2006. The balance sheet total of DKK 1,638m gives a solvency ratio of 53.1%.

- The Supervisory Board will recommend at the Annual General Meeting that a dividend of DKK 20 per share of nominally DKK 100 be paid for 2006, equivalent to a dividend of DKK 23.2m and a payout ratio of 31.1%.

- Profit before tax for 2007 is expected to be in the region of DKK 140-160m.

Review of the year

Financial highlights

Full-year pre-tax profit was DKK 114.0m (2005: DKK 147.8m), slightly ahead of the most recently announced outlook of DKK 100-110m. The original profit forecast for the year was DKK 90-110m.

The fall in pre-tax profit compared with 2005 primarily reflected the anticipated loss on the newly acquired Polish activities, although costs for running in the new Wittenborn II factory also contributed to the lower profit level for 2006, as expected. Also 2005 benefited from non-recurring income.

Revenue totalled DKK 1,662m, up from DKK 1,354m in 2005, equivalent to a 22.7% increase. Adjusted for revenue from the acquired activities, revenue was up 9.6%. Revenue showed an upward trend within all segments, particularly in the UK market.

Major highlights

H+H started the year by acquiring two Polish aircrete factories on 3 January in addition to the three acquired at the end of 2005. With these five factories H+H has secured a substantial share of the Polish aircrete market, which, with a consumption in excess of 4 million m^3, exceeds consumption in Germany and the UK, respectively. The integration of the factories proceeded to plan in 2006.

On 2 May H+H acquired an aircrete factory in the north-western part of the Czech Republic. H+H views the Czech Republic as a highly attractive market for aircrete sales. In addition, the geographical location of the factory strategically strengthens H+H's sales potential in other markets. An upgrading programme for the factory was set in motion immediately after the acquisition; however, the bulk of the upgrading, including the introduction of a new cutting line will not be undertaken until in the second half of 2007. A separate management team has been put in place for the Czech activities.

In continuation of the acquisitions in Poland and the Czech Republic H+H set up sales subsidiaries in the Ukraine and Slovakia in the second half of 2006. These are expected to primarily take aircrete products from the acquired Polish and Czech factories. In the longer term, the market experience gained in the Ukraine and Slovakia can be used as a basis for adding production to the business activities in these markets. The companies in the Ukraine and Slovakia engaged in sales activities to a modest extent only in 2006.

The work on the implementation of the principles in H+H's value proposition – Build with ease – was a focus area for all the Group's companies during the year. The philosophy behind Build with ease is to make the building process as straightforward as possible for the customers, within the framework of aircrete application. A key element in the promotion of an improved building process is the development of intelligent building systems and solutions based on both block products, reinforced beams and elements. H+H's companies are still at very different levels in relation to the ability to supply sophisticated solutions to their customers. The markets in Denmark, Sweden and Finland are thus still the most advanced as far as concerns the ability to supply the customers with all-in solutions.

With the inauguration of the new Wittenborn II factory in 2006 H+H will, in future, be self-sufficient in reinforced aircrete products for the Scandinavian and German markets. With its location close to the Danish-German border, the factory will contribute cost savings compared with the situation up to now where these products were purchased from an external factory based in the south-eastern part of Germany. The new Wittenborn II factory is an important strategic element in the future development of new systems and solutions for more widespread and efficient use of aircrete in construction.

UK

H+H UK Limited

As expected, 2006 was not a turning point in the level of activity within new housebuilding in the UK market. The number of new dwellings was on a par with 2005, while sales via builders' merchants for refurbishment and maintenance were at a slightly lower level, overall, than in 2005. As expected, the construction of flats, for which aircrete is used to a lesser extent, maintained the same high share of the total new housing stock.

H+H succeeded in boosting revenue by 12.4% compared with 2005. An increase in the volume sold accounted for the major part of the increase in revenue. H+H's progress in a flat market was partly the result of efforts to expand the market for aircrete, with tightened focus on small and medium-sized building firms, and partly the result of ongoing consolidation among several of H+H's large housebuilder customers.

In accordance with H+H's Build with ease value proposition an aircrete concept under the name of Rå House was launched in the UK in 2006. The purpose of the concept is to make it simpler for housebuilders to build the load-bearing structure for dense low-rise housing before adding additional insulation material and brickwork cladding. The Rå House concept was launched in parallel with the establishment of a network of aircrete installers, with H+H providing support and training.

Again in 2006, H+H was hard hit by rising raw material and energy prices. With respect to gas supply, H+H elected in 2006 to continue buying at current prices. This meant a considerably higher cost in the first quarter of the year, when gas prices were at a very high level compared with 2005; however, gas prices fell back to a lower level in the course of 2006, and, assisted by the mild weather, gas prices were at a slightly lower level in the last quarter of the year than in 2005.

H+H had greater success in 2006 than in 2005 in offsetting higher costs through increased selling prices; however, the increase in selling prices was far from sufficient to compensate for previous years' inability to absorb rising raw material and energy prices.

Coupled with a higher sales volume, recent years' focus on improving production efficiency by production equipment upgrading and staff cuts led to higher earnings for 2006 compared with the previous year.

GERMANY AND DENMARK

H+H Deutschland GmbH

The German market for residential construction, which has been weak for many years, showed signs of an upturn in 2006. Planning permissions for new dwellings were 10% ahead of 2005, and the level of new build activity was also at a higher level. The improvement in the level of activity led to an increase in total aircrete sales in the German market. Part of the explanation for the improved level of activity may have been an increase in the VAT rate from 16% in 2006 to 19% from 1 January 2007 and the phasing out at the end of 2006 of a subsidy scheme for the construction of new housing.

H+H realised sales in the German market slightly above the level for 2005. The sales realised in both the German market and to the affiliated companies in Scandinavia meant that H+H's two existing factories operated close to optimum capacity during the year.

2006 also saw significant increases in raw material and energy prices in Germany. The cost increases were, to some extent, recovered through higher selling prices.

The new Wittenborn II factory began manufacturing blocks in July and reinforced aircrete products in October. Apart from minor start-up difficulties, the factory completion and start-up of production proceeded to plan, and the factory had reached the expected capacity level, and the planned product range, by the end of the year.

Due to start-up costs for the new Wittenborn II factory and substantial non-recurring income in 2005, profit for 2006 was at a slightly lower level than in 2005.

H+H Danmark A/S

In Denmark the high level of activity from 2005 continued unabated throughout 2006. Unlike the last many years the high level of activity caused delivery problems on parts of the product programme periodically during the summer. In order to limit the effect of the delivery problems for customers, a number of alternative solutions were put in place where possible. These initiatives led to an increased cost level for H+H during the period.

The Danish sales subsidiary's purchase prices for aircrete products increased considerably in 2006. The purchase prices for reinforced aircrete from an external factory in south-eastern Germany, in particular, increased, and the associated higher transportation costs also depressed profit. At the end of the year H+H switched to the new Wittenborn II factory for supplies of most reinforced aircrete products, resulting in lower prices and considerably lower transportation costs.

The competitive situation for the supply of aircrete sharpened throughout the year. During autumn one of the aircrete suppliers expanded its range to include reinforced aircrete products.

H+H has stepped up its development of new solutions for its customers. In future, H+H will be in a better position to develop sales of new solutions, as the complete aircrete product range is now being manufactured in-house with the new Wittenborn II factory. Sales of housebuilding solutions incorporating solid aircrete blocks, obviating the need for additional insulation material or brickwork cladding, enjoyed particular success in 2006.

Overall, improved sales made up for increased aircrete purchase prices and transportation costs and costs for measures taken during the period when H+H experienced delivery problems. Full-year profit was consequently on a par with 2005.

EASTERN EUROPE

H+H Polska Sp. z o.o.

One year after its acquisition of five factories in Poland H+H boasts a strong and well-integrated company with a leading position in the Polish aircrete industry. As expected, the aircrete market developed favourably during the year, and the integration of the factories proceeded without any significant unforeseen events.

H+H's sales increased through the year; however, the full-year sales volume was lower than anticipated at the start of the year. The net price of aircrete increased from a very low point at the start of the year to a somewhat higher level at the end of the year. The average prices for the year were in line with expectations. Despite success in achieving higher prices during the year, the average selling price at the end of the year remained considerably lower than in the neighbouring countries. The average price level in Poland conceals significant regional differences.

A head office has been established in Warsaw. From here, sales, production, HR, finance and IT are coordinated, and function managers have been appointed for each area. A new IT and financial management system, corresponding to H+H's German IT and financial management system, has been set up and is now fully functional.

The five factories were acquired as separate legal entities by a newly formed Polish holding company. In 2006 the companies underwent a merger process, leaving only two legal entities at the end of the year.

On the sales front, sales efforts have been strengthened through structuring, recruitment, training and centralised coordination. The effect of these efforts resulted in increased sales volume, a higher price level and rapidly growing awareness of the H+H brand among the Polish customers.

In production, efforts focused on improving quality and productivity by adjusting work routines, methods and recipes. This has led to adjustment of the workforce and a significant improvement in both quality and productivity. The cost of these restructuring measures was at a slightly lower level than expected at the start of 2006.

Housing construction in Poland is undergoing rapid change. There is substantial growth, signs of a shortage of qualified labour, and professionalisation of the construction industry. This results in growing demand for professional building systems and high-quality products.

This trend is very positive for H+H, which with its Build with ease concept has the competencies required to steer the development towards greater competitiveness and differentiation compared with the smaller competitors.

The development in the demand for aircrete, including the increasing popularity of system solutions, has led to a rethink of the planned alterations to H+H's factory in Gorzkowice. It has thus been decided to carry out a more radical alteration and upgrading of the factory than originally planned. The alterations will commence at the end of 2007. Total capital expenditure for the alterations is now expected to amount to around DKK 120m compared with the previously forecast DKK 50m. The total capital expenditure for upgrading the other four factories is still expected to be in the region of DKK 120m, overall.

The total loss from the Polish activities for 2006 was at a slightly lower level than expected, partly reflecting lower restructuring costs.

H+H Česká republika s.r.o.

On 2 May 2006 H+H made its entry into the Czech market with the acquisition of an aircrete factory in the north-western part of the Czech Republic. The main purpose of the factory is to service the local Czech market, but the geographical location of the factory also opens up new opportunities for sales to other markets.

Sales in the Czech market were in line with expectations, and the level of selling prices was slightly ahead of expectations.

In 2006 a number of less capital-intensive, but important, upgrading measures were carried out at the factory. A major upgrading of the factory is planned for the second half of 2007, involving total capital expenditure of DKK 75m, following which the factory will have a capacity of approx. 300,000 m^3 and a quality level equal to products supplied by H+H's German factories.

The Czech activities generated a small profit for 2006.

NORDIC COUNTRIES

H+H Finland Oy

The positive trend in the Finnish economy continued in 2006, even though growth rates were at a slightly lower level than in previous years. The level of industrial construction showed a slightly upward trend, while the level of residential construction was generally on a par with 2005, except for a small decline in the construction of detached houses.

Despite an increasing order book, the expected growth in sales from the Finnish factory did not materialise, leading to an increase in inventories of finished goods. H+H realised sales to the Finnish market slightly below last year's level, while sales to the affiliated companies in Norway and Sweden reached the same level as in 2005.

As a supplement to the Jämerä concept H+H developed new concepts for the Finnish market for detached houses in 2006. The new concepts focus on the construction of houses with a greater degree of standardisation in the product range. Room-height elements, which have been successfully sold in Denmark for many years, were introduced to the Finnish market in 2006.

With a view to improving capacity utilisation and cutting unit costs, H+H focused tightly in 2006 on generally simplifying the product portfolio for the supply to all customer groups.

Full-year profit for 2006 was slightly lower than in 2005 after adjustment of the profit for 2005 for a substantial non-recurring cost for closure of an aircrete waste depot.

H+H Sverige AB

The high level of residential and industrial construction activity in Sweden continued throughout 2006. Residential construction was up 5% on 2005, reaching a level of 33,000 dwellings in the form of flats and dense low-rise housing. Investments in industrial construction were about 10% ahead of 2005, compared with an expected fall at the start of the year.

H+H delivered slightly higher sales than in 2005; however, the improvement in sales was at a lower level than the general increase in construction activity.

Higher transportation costs and, in particular, higher purchase prices for reinforced aircrete from an external aircrete factory situated in south-eastern Germany meant that profit for 2006 was at a slightly lower level than in 2005. In 2007 reinforced aircrete will be supplied by H+H's new Wittenborn II factory, resulting in lower purchase prices and transportation costs. Profit for 2006 was on a par with 2005, overall.

H+H Norge AS

The expected growth in sales in the Norwegian market did not materialise. Total sales were in line with 2005 and thus still account for a very modest proportion of the Group's overall sales. As in 2005 H+H recorded a small pre-tax profit in Norway in 2006.

Segment information

	UK		Germany and Denmark		Eastern Europe**		Nordic countries		Eliminations and non-allocated items		Total	
DKKm	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Revenue	664.0	590.5	537.9	502.0	187.4	5.0	273.1	256.9	0.0	0.0	1,662.4	1,354.4
EBITDA	107.6	88.2	145.6	143.2	(15.2)	(6.4)	18.9	18.4	(22.3)	(14.2)	234.6	229.2
EBIT*	66.4	46.0	104.6	107.5	(30.4)	(7.0)	11.1	10.3	(22.8)	(15.2)	128.9	141.6
Profit (loss) before tax	62.1	39.2	97.1	109.6	(41.2)	(7.9)	8.0	8.0	(12.0)	(1.1)	114.0	147.8
Non-current assets	434.9	448.0	425.0	378.4	318.3	161.0	36.6	37.7	33.6	21.6	1,248.4	1,046.7
Addition of intangibles, property, plant and equipment	20.0	33.8	83.1	81.3	37.8	0.0	7.2	7.0	7.9	0.0	156.0	122.1
Depreciation	41.2	42.2	41.1	35.7	15.1	0.6	7.8	8.1	0.5	1.0	105.7	87.6
Assets	616.0	583.2	538.5	561.0	399.9	263.4	103.6	158.4	(19.8)	(146.5)	1,638.2	1,419.5
Equity	314.5	258.5	221.9	198.7	73.2	50.0	9.6	54.1	251.2	266.4	870.4	827.7
Liabilities	301.5	324.8	316.6	355.6	326.8	213.4	93.9	100.6	(271.0)	(402.5)	767.8	591.9
Average full-time equivalent staff	319	358	200	167	696	33	162	147	8	7	1,385	712

* No write-downs relating to goodwill were made in 2006 or 2005. EBIT and EBITA are consequently identical.

** The activities in Poland and the Czech Republic were acquired in 2005 and 2006. The activities have been recognised from the date of acquisition. The sales entities in the Ukraine and Slovakia were both established in the second half of 2006.

Outlook for 2007

Pre-tax profit for 2007 is expected to be in the region of DKK 140-160m. The outlook for the individual countries is as follows:

UK

H+H UK Limited

Total housebuilding activity in the UK is expected to remain at the same level in 2007 as in 2006. It is still estimated that the current level of new build completions will, in the long term, be insufficient to cover future needs; however, expectations of further interest hikes and the retention of significant demands on housebuilders concerning planning permission are expected to continue to put a damper on housebuilding activity in the UK.

It is expected that the large proportion of the total new housing stock in the UK accounted for by apartments has peaked and will show a slightly downward trend in the years ahead, partly because a growing number of flats in the housing market remain unlet. All things being equal, a move away from apartments to dense low-rise building will increase the potential for aircrete sales.

The new energy conservation requirements for new dwellings built will be fully implemented in 2007. Aircrete sales are expected to benefit from this to the detriment of building materials in concrete and lightweight aggregate concrete.

H+H expects to generate sales in 2007 slightly ahead of the 2006 level. A small proportion of the increased sales is expected to come from a general increase in aircrete's share of the total block market, although it is expected that the slightly higher level of activity will primarily have to be realised by a continued, targeted sales effort in new markets and ongoing development of new system solutions.

The prices of primary raw materials are expected to rise at levels significantly exceeding inflation again in 2007. The price of gas supplies for the first three quarters of 2007 has been frozen under a fixed-price agreement with an external supplier. It is expected that improved selling prices will balance out the increase in costs from 2006 to 2007.

GERMANY AND DENMARK

H+H Deutschland GmbH

The situation of modest economic growth in Germany for several years now is expected to be coming to an end, with a higher growth level projected for the coming years; however, an improvement in the general economic situation in Germany is not expected to have a knock-on effect in 2007 on the level of new build housing activity, which, on the contrary, is expected to fall to the 2005 level. Conversely, the market for refurbishment and maintenance is expected to grow so that it will account for a larger share of the total market for aircrete products.

H+H expects total sales of aircrete blocks to be at the same level as in 2006. Sales of blocks to the German market and the affiliated companies in Denmark and Sweden are expected to be on a level with 2006.

Raw material and energy prices are expected to rise at a slightly higher level than the general rate of inflation. The increases in variable costs are expected to be balanced out by slightly higher selling prices.

With the new Wittenborn II factory H+H expects to be able to almost fully service the Danish and Swedish markets in 2007 with reinforced aircrete products manufactured in-house. The reinforced aircrete products from the Wittenborn II factory will also be introduced in the local German market.

H+H Danmark A/S

The high demand for new build housing in Denmark is expected to continue in 2007, and following the start-up of the Wittenborn II factory in 2006 no delivery problems are anticipated; however, potential delivery problems for other building materials than aircrete may have some bottleneck impact on the execution of construction activities.

The competitive climate for the supply of aircrete products is expected to intensify still further in 2007, as in 2006. The intensified competition is expected to result in sales for 2007 at a slightly lower level than in 2006. Moreover, the pressure on selling prices is expected to lead to slightly slimmer margins, despite savings on purchases of reinforced aircrete products from the new Wittenborn II factory.

In 2007 H+H will initiate sales of solutions incorporating new reinforced aircrete products within industrial and commercial building in the Danish market.

EASTERN EUROPE

H+H Polska Sp. z o.o.

The favourable trend in construction activity in the Polish housing market in 2006 is expected to continue in the years ahead. Housing construction in 2006 was more than 5% ahead of 2005. The annual growth is expected to be at an even higher level in the coming years.

With a strengthened and well-coordinated sales effort H+H's sales in Poland are expected to show similar growth. In addition, it is expected that aircrete sales to the affiliated companies in the Ukraine, Slovakia and the Czech Republic will be established.

Price increases on the key raw materials and energy are expected to be at a slightly higher level than the general rate of inflation. In 2007 H+H will continue focusing closely on achieving higher selling prices; however, the average selling prices in the Polish market are not expected to reach a level approaching the price levels in the surrounding EU countries.

Maintenance programmes were only implemented to a lesser extent in 2006. More comprehensive maintenance programmes in 2007 will erode pre-tax profit.

The upgrading of the factory in Gorzkowice will commence in 2007 and be completed in 2008. The upgrading will depress profit due to the temporary closure. No other major restructuring costs are expected in 2007.

Overall, a pre-tax loss for the Polish activities in the region of DKK 15m is anticipated in 2007. The result before depreciation and interest is expected to be a profit.

H+H Česká republika s.r.o.

The activity in the Czech market for new build housing is expected to remain at a high level. H+H expects sales to develop favourably. Increases in selling prices are expected to make up for increased costs.

In 2007 extensive alterations of the factory in Most will commence. As previously announced, the total capital expenditure for the alterations is expected to reach DKK 75m, resulting in a total production capacity in excess of 300,000 m^3 and a quality level equal to the highest quality from H+H's German factories.

Despite the commencement of the alterations of the factory in Most in 2007 the Czech activities are expected to generate a small profit for 2007, overall.

H+H Ukraina TOV

In 2006 H+H established a small organisation in Kiev with a view to importing aircrete from its Polish factories and selling it in the market in the Ukraine. Modest sales and a result close to break-even are anticipated for 2007.

H+H Slovenská republika s.r.o.

Modest sales of products from the Polish and Czech factories to the Slovakian market are expected for 2007. As no separate management has been established for the Slovakian activities, sales will be handled by the Czech organisation. A result close to break-even is expected for the Slovakian activities in 2007.

NORDIC COUNTRIES

H+H Finland Oy

The level of activity in the Finnish residential and industrial construction markets is expected to be at the same level as in 2006. H+H anticipates increased sales in the Finnish market, overall. The increased sales are expected to be generated, in particular, on project sales for industrial and warehouse buildings, and on increased sales of new concepts to the market for detached houses. The expectations of increased sales in 2007 are based, among other things, on a somewhat higher order book at the end of 2006 than at the end of 2005.

H+H Sverige AB

The high level of industrial and residential construction activity in Sweden is set to continue in 2007. Sales in 2007 are expected to be ahead of 2006, with dense low-rise housing accounting for most of the increase. Profit will benefit from lower purchase prices and lower transportation costs for reinforced aircrete, which, in 2007, will be supplied to the market in Southern Sweden by the new Wittenborn II factory.

H+H Norge AS

Sales in the Norwegian market are expected to improve in 2007 compared with 2006.

Financial review

Results

Pre-tax profit for the year was DKK 114.0m (2005: DKK 147.8m), ahead of the most recently announced outlook in the region of DKK 100-110m. The original forecast for the year was pre-tax profit in the region of DKK 90-110m. On acquisition of the Czech aircrete factory in May, the profit outlook was adjusted to the DKK 85-105m range due to a projected loss of approx. DKK 5m on the Czech activities.

The lower profit level compared with 2005 primarily reflected a considerable but anticipated loss on the new activities in Poland.

The H+H Group's main activities were characterised by a very weak start to the year due to poor weather in the first quarter and a correspondingly very positive end to the year due to unusually mild weather in the fourth quarter.

Pre-tax profit for the UK segment was DKK 62.1m (2005: DKK 39.2m) compared with the most recently announced expectations in the region of DKK 55m. The improvement in profit compared with the most recently announced expectations was due primarily to a more positive sales trend and lower gas prices than expected in December, both of which were partly due to the very mild weather. Full-year pre-tax profit in the UK was up DKK 22.9m or approx. 58% on 2005, due largely to increased sales. Despite considerable increases in raw material and energy prices, H+H managed to achieve improved selling prices that compensated for the cost increases; however, the price increases were not sufficient to compensate for the backlog of cost increases from previous years.

The German-Danish segment realised pre-tax profit of DKK 97.1m (2005: DKK 109.6m), which was marginally higher than the most recently announced outlook of profit in the region of DKK 95m. The decline in profit from 2005 to 2006 was due partly to non-recurring income of DKK 6.4m in 2005 on repayment of a loan. Adjusted for this non-recurring income, pre-tax profit for 2006 was down DKK 6.1m. The lower profit was achieved despite improved sales in the Danish market, in particular, and partly reflected higher purchase prices of reinforced concrete from an external German manufacturer, and costs for start-up of H+H's new Wittenborn II factory in Germany.

The Eastern European segment generated a pre-tax loss of DKK 41.2m (2005: DKK 7.9m) versus the most recently announced expectations of a loss in the region of DKK 45m. For 2006 the Eastern European segment featured five Polish factories for a full year, one Czech factory for eight months and newly established sales subsidiaries in the Ukraine and Slovakia, with very limited activity in 2006. For 2005 the Eastern European segment featured three Polish factories for one month. The loss for 2006 was attributable to the Polish activities. The Czech activities showed a small profit for 2006. The loss on the activities in Poland was due primarily to very low pricing of the volume sold compared with the prices realised in the Group's other markets. In addition, various costs were incurred for a number of integration measures among the different localities and for production measures at the individual factories.

The Nordic segment recorded pre-tax profit of DKK 8.0m (2005: DKK 8.0m) compared with the most recently announced outlook in the region of DKK 10m. Overall for the Nordic segment, the volume sold was on a par with 2005. Profit for 2006 was adversely affected by significant price increases on purchases and transportation of reinforced aircrete from an external German aircrete manufacturer. In turn profit for 2005 was affected by a DKK 3.5m provision for closure of an aircrete waste depot.

Non-allocated net costs amounted to DKK 12.0m (2005: DKK 1.1m). Net costs in the parent company before financial income and expenses totalled DKK 22.3m (2005: DKK 15.2m). The increase in net costs was due partly to non-recurring income of DKK 3.9m in 2005 relating to the settlement of a written-down loan. Non-allocated net financial income amounted to DKK 11.0m (2005: DKK 14.1m). The fall in non-allocated net financial income was due, among other things, to capitalisation of the new activities in Poland and the Czech Republic and a DKK 2.1m exchange gain in 2005.

Revenue

Consolidated revenue for the H+H Group amounted to DKK 1,662m (2005: DKK 1,354m), up DKK 308m or 22.7%. Adjusted for the newly acquired activities in Poland and the Czech Republic, revenue was up 9.6%.

Increases in revenue were recorded on all segments from 2005 to 2006. The increases in revenue were achieved through a combination of price increases and increased volume.

Revenue of DKK 664m was realised in the UK (2005: DKK 591m), up 12.5%, mainly driven by an increased sales volume. H+H's improvement in sales was due partly to continued consolidation among several of H+H's customers, and partly to the successful efforts to expand the market for aircrete by focusing on small and medium-sized building firms. The average DKK/GBP exchange rate for 2006 was at level with 2005.

Revenue in the German-Danish segment reached DKK 537.9m (2005: DKK 502.0m), up 7.2% on 2005. Revenue was up in both the German and the Danish markets. The increase in revenue in the Danish market was primarily based on an increased sales volume, while the realised prices were on a par with 2005. The increase in sales in the Danish market was largely driven by a sustained high level of activity in the Danish construction market. The improvement in sales was achieved notwithstanding a marked sharpening of competition in the supply of aircrete in Denmark. The increase in revenue in the German market was realised by a combination of slightly higher prices and a slightly higher volume.

The Eastern European segment delivered revenue of DKK 187.4m (2005: DKK 5m), predominantly attributable to the Polish market. The realised revenue was achieved at selling prices far below the level in the other markets in which H+H supplies aircrete. Expressed in volume terms, sales in Poland and the Czech Republic were at a slightly higher level compared with the German-Danish segment.

The Nordic segment contributed revenue of DKK 273.1m (2005: DKK 256.9m), up 6.3%. For the Nordic segment overall the increase in revenue was achieved with a sales volume on a par with 2005.

Acquisitions

On 3 January 2006 H+H acquired majority stakes in two Polish aircrete factories. During the year H+H also acquired minority stakes in the two Polish aircrete factories and additional minority stakes in two aircrete factories acquired in 2005. At the end of 2006 0.06% of the share capital in one of the aircrete factories was still to be acquired. The total acquisition price for the Polish aircrete factories in 2006, including transaction costs and interest-bearing debt, was DKK 74.0m.

The total acquisition price for all five aircrete factories for both 2005 and 2006, including transaction costs and interest-bearing debt, was DKK 219m. The originally forecast acquisition price was DKK 230m. Total goodwill for the acquired five Polish factories amounts to DKK 59.4m.

On 2 May 2006 H+H acquired an aircrete factory in the north-western part of the Czech Republic. The total acquisition price was DKK 25.2m, including transaction costs and interest-bearing debt. Following allocation of the acquisition price, goodwill amounts to DKK 2.4m.

Capital expenditure

Total capital expenditure for the H+H Group amounted to DKK 156.0m (2005: DKK 122m). Adjusted for Poland, the Czech Republic and the new Wittenborn II factory, capital expenditure totalled DKK 47.3m (2005: DKK 69m). Depreciation totalled DKK 105.7m (2005: DKK 88m). Adjusted for Poland, the Czech Republic and the Wittenborn II factory, depreciation totalled DKK 84.8m (2005: DKK 87m).

Capital expenditure on the new Wittenborn II factory amounted to DKK 70.9m (2005: DKK 53m), including capitalisation of own work, DKK 1.6m (2005: DKK 0.5m). Total capital expenditure on the Wittenborn II factory for 2004-2006 amounted to DKK 155.9m, versus the originally announced expectations of DKK 115m. The higher level of capital expenditure is reflected in a higher capacity level for the factory than originally planned. Depreciation on the Wittenborn II factory commenced on 1 July 2006.

The capital expenditure in Poland and the Czech Republic totalled DKK 37.8m for 2006 and related primarily to minor upgrading of the acquired factories.

Development project expenditure has not been capitalised in 2006 and 2005, nor has interest for 2006 and 2005 been capitalised.

Financing

Total net interest-bearing debt increased by DKK 229.6m from the start to the end of 2006, standing at DKK 353.1m at 31 December 2006.

Cash flows from the H+H Group's operating activities totalled DKK 59.9m (2005: DKK 207m), down DKK 146.6m.

Cash flows from investing activities totalled DKK 246.4m (2005: DKK 247m). Acquisitions amounted to DKK 92.2m (2005: DKK 142m), capital expenditure totalled DKK 156.0m (2005: DKK 122m), and proceeds from disposal of fixed assets amounted to DKK 1.8m (2005: DKK 17m). No companies were disposed of in 2006 and 2005.

Total dividends paid to the shareholders adjusted for dividends on treasury shares amounted to DKK 40.2m (2005: DKK 39.9m). Annual dividend of DKK 35 per share of nominally DKK 100 was paid in 2006 and 2005.

Buyback and sale of treasury shares generated net proceeds of DKK 2.6m (2005: DKK 6.9m).

Net financing costs in respect of interest-bearing debt, excluding capital gains and losses, amounted to DKK 14.1m (2005: DKK 2.1m). The increase in net financing costs reflected both increasing net interest-bearing debt and increasing interest rates. For 2006 the whole of the interest-bearing debt was raised at short-term interest rates.

Capital gains, etc., of DKK 0.2m were realised in 2006. In 2005 capital gains of DKK 8.8m were realised, including DKK 6.4m relating to repayment of a loan in the German subsidiary, and DKK 2.1m relating to a foreign exchange gain on settlement of an intragroup loan. The capital losses, etc., incurred in 2006 totalled DKK 1.0m (2005: DKK 0.5m).

The solvency ratio at the end of 2006 was 53.1% versus 58.3% at the end of 2005.

Taxation

Income tax expense was DKK 39.8m (2005: DKK 47.5m), corresponding to an effective tax rate of 34.9% (2005: 32.1%). The increase in the tax rate was due primarily to substantial losses in Poland, where the capitalised tax base was calculated applying a tax rate of 19%.

The tax rate also benefited from capitalisation in 2006 of a tax loss in Finland, dating back to the acquisition of the company in 1999, with a total tax base of DKK 8.5m. Conversely, the tax rate was adversely affected by the discontinuation of the parent company's joint taxation with Sweden and Norway totalling DKK 5.3m. The write-down of the tax asset was due to the discontinuation of the joint taxation between the Danish and Norwegian operations with effect from 1 January 2005. The discontinuation of the joint taxation reduces the likelihood of a future full utilisation of the historical losses in Norway.

Equity

The H+H Group's equity increased by DKK 42.7m during the financial year, standing at DKK 870.4m at the end of the year.

Changes in equity (DKK 1,000)	
Balance at 1 January 2006	827,689
Retained earnings	74,630
Treasury shares, net	2,625
Value adjustments, investments, etc.	5,046
Fair value adjustments of hedging instruments	(1,862)
Dividends paid in 2006	(40,600)
Other adjustments	2,904
Balance at 31 December 2006	870,432

Dividends

The Supervisory Board will recommend at the Annual General Meeting on 12 April 2007 that a dividend of DKK 20 per share of nominally DKK 100 be paid for 2006, corresponding to a total dividend of DKK 23.2m and 31.1% of profit for the year. The proposed dividend is thus within the company's objective of a payout ratio of 25-40% of profit for the year. In 2006 dividends of DKK 35 per share of nominally DKK 100 were paid, corresponding to total dividend of DKK 40.6m and 40.5% of profit for 2005.

Christian Harlang, member of the Supervisory Board has the following objection to a reduction of the dividend from DKK 35 to DKK 20 per share of nominally DKK 100: the company's favourable earnings in 2006 and extraordinary investments do not provide just cause for reducing the dividend from DKK 35 to DKK 20 per share of nominally DKK 100. Christian Harlang wishes the DKK 35 dividend to be retained.

Financial objectives

The financial objectives remain unchanged from the 2005 annual report.

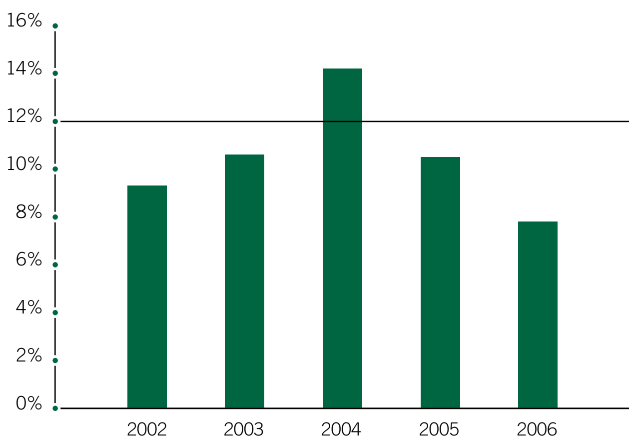
Due to the start-up and restructuring phase in the next years, the expansive measures in the Eastern European markets are expected to generate results considerably below the Group's financial objectives. The levels for the Group's total objectives for EBITA margin and ROIC should therefore be viewed as objectives that are not expected to be achieved until in the next couple of years.

The growth and results objectives should generally be viewed as averages over a lengthy period of time during which positive and negative deviations must be expected to occur. A significant proportion of the Group's sales is linked to new builds, and even though H+H's markets are often out of sync with each other, cyclical fluctuations in the demand for H+H's products and services must be expected. Exchange rate fluctuations can also have a considerable impact on H+H's reported results. H+H's growth and results may therefore vary year on year.

Sales growth of 5-10%

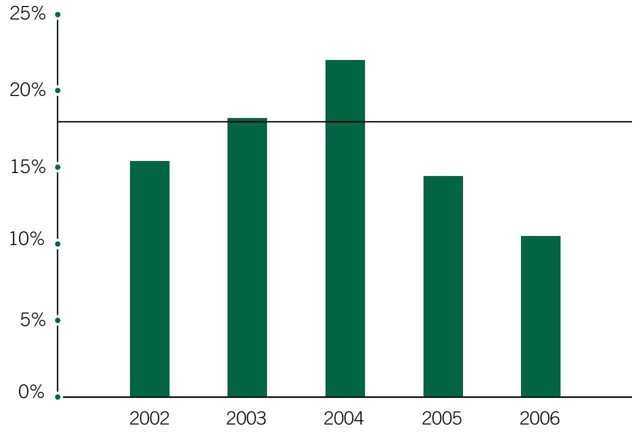
It is H+H's objective to achieve average annual organic revenue growth in the region of 5-10% in the years ahead. On average, growth is expected to reach a level somewhere around the middle of this range.

Operating margin/EBITA margin of 12%



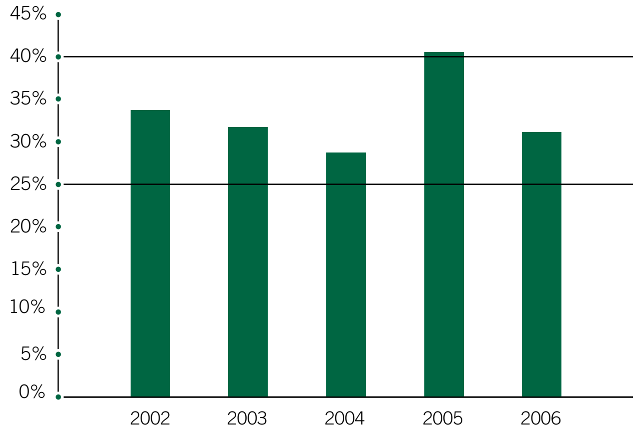
It is H+H's objective to achieve a level for its operating margin (EBITA) of 12% over the next couple of years and, on average, to hold this level in the long term.

ROIC of 18%



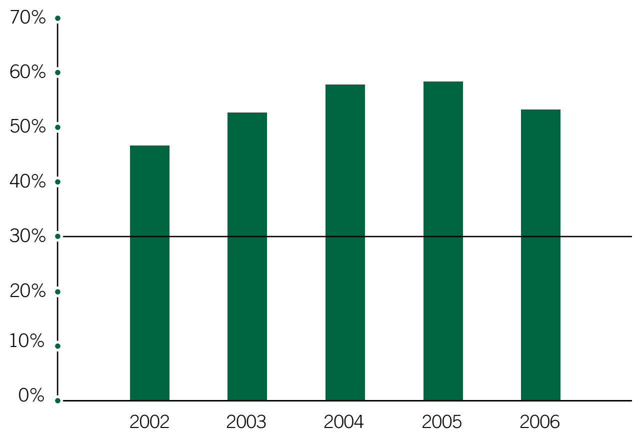
It is H+H's objective to return to a pre-tax return on invested capital (ROIC) in the region of 18% over the next couple of years and, on average, to hold this level in the long term.

Payout ratio of 25-40%



Under normal and stable conditions, H+H International A/S will endeavour to maintain its payout ratio at a level of 25-40% of the Group's annual profit. Distributions to the shareholders can, in principle, be made in the form of dividends or through share buybacks followed by reduction of the share capital – or a combination of both.

Solvency ratio of min. 30%



The H+H Group will endeavour to maintain its solvency ratio at a level above 30%. Due to accumulation of financial resources for future capacity expansions and acquisitions the solvency ratio will, from time to time, considerably exceed this level. Any buybacks of shares will be evaluated regularly on the basis of whether surplus liquidity is expected from this perspective.

Note: Figures for 2002 and 2003 have not been restated to IFRS. In the case of the historical growth levels, only revenue for H+H's aircrete activities has been used. In the case of acquisitions, revenue has been adjusted in the period prior to the acquisition in the growth calculations, with revenue from the acquired activities having been added to the revenue realised. The EBITA margins shown are based on actual revenue and actual results for all business activities. In connection with the calculation of ROIC, goodwill from before 1 January 2001 that was written off immediately has not been reversed. On calculation of EBITA margin, ROIC and payout ratio for 2002, EBITA has been adjusted upwards by DKK 79m before tax (DKK 55.3m after tax). The adjustment relates to special costs for closure of factories and costs for an attempt to acquire an aircrete operation in the UK. The figures shown for payout ratio are based exclusively on dividends paid.

Risk management

The H+H Group's activities centre around the manufacture and sale of aircrete products in Northern and Eastern Europe. Its primary sales are related to in-house production and only to a lesser extent to goods for resale. The products are primarily sold in the local markets close to the manufacturing facilities. Transportation over long distances typically only happens to markets in which there is no aircrete production locally. The main risks associated with the Group's business activities are described below, along with the policies for hedging these risks.

MARKET RISKS

Market conditions and demand

A large percentage of the H+H Group's sales goes to dense low-rise new builds. The Group is therefore vulnerable to fluctuations in the level of activity within this building segment. With a significant operational gearing in the form of heavy capital expenditure and fixed costs, fluctuations in demand have a noticeable effect on the company's financial performance. H+H strives to expand the market for aircrete to include a larger proportion of other forms of buildings than dense low-rise housing than is the case today, including flats, commercial buildings and the market for refurbishment and improvements.

In recent years, the Group has expanded its activities to include more geographical areas, balancing out fluctuations in the level of activity, which is often out of sync in the individual markets. Despite limitations imposed by transportation costs, an increased geographical spread places the Group in a better position to exploit changes in the level of activity between the markets. It is the Group's strategy to continue the geographical expansion of its activities.

The Group continuously monitors and evaluates the long-term construction activity outlook. Clear indications of serious recession will be reflected in the Group's planning of capital expenditure and other decisions related to operations. H+H also focuses on keeping its production plant in 24-hour operation, with the possibility of reducing the number of shifts in the event of lower demand. The Group seeks to outsource non-core activities such as logistics with relatively short notice of termination.

Competition

H+H's products and aircrete building systems are sold in the local markets in which the factories are situated. H+H's competitors are other local manufacturers of aircrete products and other manufacturers of products that can be used in competition with aircrete.

Compared with other aircrete manufacturers H+H has created a strong market position and is known as a supplier of high-quality products. This position has been achieved via strong, locally based sales organisations. H+H differentiates itself from other aircrete manufacturers by being more solution-oriented. In dialogue with its customers, H+H offers solutions that bring advantages for the customers in the form of lower total costs and/or shorter construction time. H+H's factories manufacture standard products, and it is vital that the factories operate at 100% capacity utilisation, giving the lowest possible unit cost. This is paramount to ensure that H+H can always compete on price in all markets.

The construction industry is relatively conservative, which means that market shares between aircrete and other types of building materials are reasonably stable, even though minor shifts occur on a regular basis. H+H continuously strives to disseminate knowledge about its products and the advantages its products offer over other building systems. H+H believes that aircrete's properties are so unique that the products will continue to enjoy a strong position in future.

Raw material supplies and prices

The key raw materials used in the production of aircrete are cement, lime, water and sand or pulverised fuel ash. Energy costs absorb around 5% of revenue. The factories are secured supplies of sand for many years to come. The factories that today use pulverised fuel ash as the primary raw material could use sand instead for a relatively limited additional investment. Costs for cement account for roughly half of the total consumption of raw materials, excluding energy. H+H is therefore vulnerable to the increasing consolidation on the supply side for cement; however, aircrete typically uses a smaller amount of cement per m^2 wall than concrete products.

FINANCIAL RISKS

Currency

The H+H companies trade predominantly in their own local currencies or in EUR. Currency exposure on transaction positions related to operations is therefore limited. The Group's UK operations account for a significant part of its activities and values. The H+H Group's equity and profit are therefore exposed to fluctuations in the GBP rate of exchange. Based on the profit outlook for 2007, a 1% change in the DKK/GBP exchange rate will affect pre-tax profit for the year by DKK 0.6m and equity at 31 December 2006 by DKK 2.8m.

H+H does not engage in currency speculation. The individual companies are not authorised to take positions in foreign currency unless commercially warranted, and commercial positions above a limited ceiling must be hedged. It is also H+H's policy to accept unhedged currency exposure on ownership and income from equity investments, although such exposure must be minimised taking into account the financial position and tax issues.

Capital structure and cash flow

The Group expects a considerable positive cash flow from its operations in the years ahead, but also major capital expenditure on upgrading the recently acquired factories in Eastern Europe and further geographical expansion. Net interest-bearing debt stood at DKK 353m at 31 December 2006.

Net interest-bearing debt is recognised in local currencies and is primarily denominated in PLN, GBP and EUR. The effective interest rate for the Group in 2006 was at the 4.5% level, partly reflecting the interest rate levels of the individual currencies.

The interest exposure on the Group's loan portfolio with a maturity beyond six months was not hedged at the end of 2006. Hedging of the interest exposure is regularly assessed in relation to the future strategy and thus the expected future debt portfolio.

Interest rates

With the expected development in net interest-bearing debt, a 1 percentage point change in the interest rate will affect pre-tax profit for 2007 by a figure in the region of DKK 5.5m.

The parent company's interest-bearing financial assets consist predominantly of loans to Group enterprises. The parent company's interest-bearing liabilities consist of payables to Group enterprises and bank overdrafts.

Granting of credit

It is considered that the H+H Group does not have any material risks relating to individual customers or business partners. In line with the Group's policy relating to the acceptance of credit risks, all major customers and other business partners are credit rated on a regular basis.

Investor information

Share price development

H+H International A/S's B shares are listed on the Copenhagen Stock Exchange. The price of the B share increased by 36.3% from the start to the end of 2006. By comparison the OMXC20 index rose by 12.2%. At the end of 2006 the price was DKK 1,842.

The volume of listed B shares traded in 2006 was 684,129 shares at a total value of DKK 967,087,464. By comparison, the volume traded in 2005 was 1,352,815 B shares at a total value of DKK 1,789,308,168.

Dividends

Dividend of DKK 35 per share of nominally DKK 100 was paid in 2006 for the 2005 financial year. For the 2006 financial year the Supervisory Board will recommend to the Annual General Meeting in 2007 that a dividend of DKK 20 per share of nominally DKK 100 be paid. The dividends for 2005 and 2006 correspond to a payout ratio of 40.5% and 31.1%, respectively. It is the company's objective that the payout ratio should be held in the region of 25-40% of profit for the year.

Capital structure

It is the company's objective to have a solvency ratio of at least 30%. The solvency ratio was 53.1% at the end of 2006. The Supervisory and Executive Boards regularly evaluate the Group's capital structure. The evaluation is based on the expected cash flows and the purpose is to ensure an appropriate balance between adequate future financial flexibility and optimum return to the shareholders.

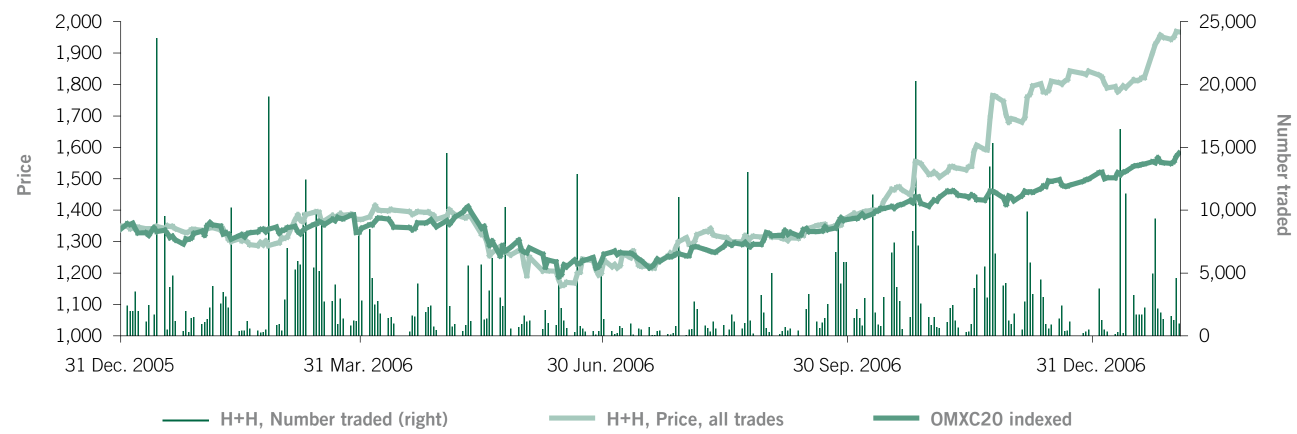
With plans for substantial investments in the existing markets, and expectations of further investments in continued geographical expansion, and taking into account the construction sector's general dependence on market conditions, it is estimated that there is currently no need to align the capital structure through special share buybacks or distribution of extraordinary dividends.

H+H International A/S bought back 2,500 B shares in 2006. The buyback was made to satisfy the share option plan for the company's management. So far, H+H International A/S has not bought back any shares in 2007. On 1 February 2007 the company's holding of treasury shares was 10,320 B shares with a nominal value of DKK 100 each, equivalent to 0.89% of the share capital. Treasury shares are written off immediately to equity.

Investor relations

The purpose of H+H International A/S's financial communications is to strive for a valuation of the B share that most fairly re-

Share price performance and volume traded



Analysts covering H+H International A/S at 15 March 2007

Carnegie Bank A/S	Carsten Jantzen Leth	carsten.leth@carnegie.dk	tel. +45 32 88 02 72
Danske Equities A/S	Stig Frederiksen	stif@danskebank.com	tel. +45 33 44 05 24
Gudme Raaschou Bank A/S	Stig Nymann	sny@gr.dk	tel. +45 33 44 90 93
Nordea Markets	Carsten Warren Petersen	carsten.warren.petersen@nordea.com	tel. +45 33 33 39 45
SEB Enskilda, Equities Research	Simon Christensen	simon.christensen@enskilda.dk	tel. +45 36 97 75 26
Sydbank A/S	Holger Smitt	holger.smitt@sydbank.dk	tel. +45 33 69 78 89

flects the H+H Group's current situation and expectations, and achieving adequate liquidity in the B shares. All communications reflect the requirement that information must be open, honest and timely. The main written financial communications are via the annual report, quarterly interim reports and other Stock Exchange Announcements. H+H International A/S is also in regular dialogue with professional and private investors, analysts and the business press. The dialogue takes the form of presentations to large groups and individual meetings.

The company is not normally available for dialogue concerning financial issues in the three-week period leading up to the presentation of financial statements.

Relevant investor information is available at www.HplusH.com.

Enquiries to the company concerning IR issues should be addressed to Hans Gormsen, CEO, at hg@HplusH.com or Martin Busk Andersen, Vice President, at mba@HplusH.com, both of whom can be contacted by telephone on +45 35 27 02 00.

Incentive schemes

The existing share option plan for key management personnel expired at the end of 2006, although grants for 2006 will not be made until ten business days after the publication of the 2006 annual report on 15 March 2007, and the share options in question may not be exercised until in the period 2010-2012. It has been decided to extend the share option plan with vesting for 2007 and for a limited number of years thereafter. The final terms for the extended share option plan will be clarified during 2007. A cash bonus plan is also in place.

A detailed description of the share option plan is given in note 24.

Share capital and ownership

H+H International A/S has a nominal share capital of DKK 116,000,000 divided into 1,160,000 shares of nominally DKK 100 each. The shares are divided into A shares and B shares. Each A share entitles the holder to 100 votes, and each B share entitles the holder to ten votes. There have been no changes in the share capital in 2006.

H+H International A/S's B shares are listed on the Copenhagen Stock Exchange on the Nordic list in the MidCap segment (companies with a market capitalisation between EUR 150m and 1bn) under the designation HH B and ISIN code DK0015202451.

At 1 February 2007, 1,666 shareholders were registered by name (representing approx. 78% of the company's share capital), including 114 foreign shareholders.

The company's major shareholders at 1 February 2007, i.e. shareholders holding 5% or more of the nominal share capital or the voting rights, cf. Section 28(a) and (b) of the Danish Public Companies Act, are shown in the table below, and reference is also made to note 26.

Share capital and votes

Share class	Nominal share capital – DKK	Number of shares of nominally DKK 100	Votes per share of nominally DKK 100	Votes
A shares	24,000,000	240,000	100	24,000,000
B shares	92,000,000	920,000	10	9,200,000
Total	116,000,000	1,160,000		33,200,000

Major shareholders at 1 February 2007

	Nominal capital	% of total	Votes	% of total votes*
Henriksen og Henriksen I/S	24,000,000	20.69	24,000,000	72.51
ATP**	15,532,600	13.39	1,553,260	4.68
LD***	8,930,900	7.70	893,090	2.69
Holdingselskabet af 9/11 2001 ApS	7,902,000	6.81	790,200	2.38

* Excluding H+H International A/S's holding of treasury shares
** ATP and ATP Invest
*** LD Equity 1 K/S and Fåmandsforeningen LD

The company's register of shareholders is maintained by:
VP Investor Services A/S (VP Services A/S) Helgeshøj Allé 61 P.O. Box 20 2630 Tåstrup, Denmark Tel.: +45 43 58 88 66 Fax: +45 43 58 88 67 E-mail: vpinvestor@vp.dk

H+H International A/S's largest shareholder is Henriksen og Henriksen I/S, which holds all A shares in the company, equivalent to 20.69% of the share capital and 72.51% of the total votes (excluding the votes from the company's holding of treasury shares). Henriksen og Henriksen I/S consists of descendants of the founders of H+H, including a foundation set up by one of the descendants. A partnership agreement has been entered into which governs issues such as pre-emption rights, voting rights, election of members to the Supervisory Board and appointment of auditors in H+H International A/S.

The Supervisory Board is of the opinion that H+H International A/S's share structure, with different voting power to A shares and B shares, does not on any material points limit the company's scope for action, as the company's A shareholder, Henriksen og Henriksen I/S, backs the Supervisory and Executive Boards' definition and execution of the company's strategy for organic and geographical growth.

Members of the Supervisory and Executive Boards are included in H+H International A/S's insider register. These persons and persons connected to them consequently are only allowed to buy and sell shares in the company during the six weeks immediately after each preliminary announcement of financial statements. If such persons are in possession of inside information, they may not trade until the information in question has been made public.

Annual General Meeting 2007

The Annual General Meeting of H+H International A/S will be held on Thursday 12 April 2007 at 3.00pm in Konference- og selskabslokalerne Amaliegade 10, Forsikringens Hus, Amaliegade 10, 1256 Copenhagen K, Denmark.

Registered shareholders automatically receive notices of general meetings. Management therefore invites all shareholders to join the company's register of shareholders. Shareholders wishing to have their shares registered should contact their own depository bank or advise VP Investor Services A/S (VP Services A/S), which maintains the company's register of shareholders, see the contact information set out above.

Financial calendar 2007*	
15 March 2007	Annual Report 2006
12 April 2007	Annual General Meeting
24 May 2007	Interim report Q1 2007
30 August 2007	Interim report H1 2007
27 November 2007	Interim report Q3 2007

* H+H International A/S's communications with shareholders, analysts, media, etc., are subject to special restrictions in a period of three weeks prior to each preliminary announcement of financial statements.

Published notices (1 January 2006 – 1 February 2007)*	
22 November 2006	H+H financial calendar 2007
22 November 2006	H+H International A/S – Interim report Q3 2006
22 August 2006	H+H International A/S – Interim report H1 2006
18 May 2006	H+H International A/S – Interim report Q1 2006
2 May 2006	Closing of acquisition of aircrete factory in the Czech Republic
24 April 2006	Acquisition of aircrete factory in the Czech Republic
5 April 2006	Business transacted at H+H International A/S's Annual General Meeting and first meeting of the Supervisory Board
23 March 2006	Share option plan – final grants 2006
15 March 2006	Notice of Annual General Meeting of H+H International A/S
8 March 2006	Annual report 2005
31 January 2006	Enlargement of the Executive Board

* Notices of transactions by key management personnel and their connected persons involving H+H International A/S's shares and securities related to these are not included. All notices can be viewed at www.HplusH.com.

Conduct of business

ENVIRONMENT

The manufacture of aircrete does not involve the use of any scarce natural resources.

The production of aircrete involves the use of electricity for powering machinery and gas for raising steam for autoclaving the aircrete. H+H continuously strives to minimise its consumption of electricity and gas, partly to reduce its production costs, and partly to reduce CO_2 emissions. The possibilities for profitable use of alternative energy sources to completely or partly replace electricity are being continuously explored. To save water resources, H+H is also working on rainwater collection for use in production, and production water is reused to some extent.

Aircrete can be extensively reused in crushed form for applications such as road fill, insulation material and material for lightweight aggregate concrete.

SHARING OF KNOWLEDGE AND BEST PRACTICE

The H+H Group consists of a number of independent subsidiaries in Europe. Some are pure sales companies, while others are both sales and production companies. H+H works intensively on improving knowledge and best practice in all companies and in all the markets in which H+H operates. This applies to production-related as well as sales-related issues.

In 2006 extensive efforts went into anchoring the corporate sales strategy Build with ease. Further details of this strategy, which is H+H's formula for creating permanent value growth in all markets, are given on pages 67 and 68.

With the new sales strategy all companies will be applying a common approach to the market. As part of this process, the companies' corporate identities will be aligned. The new measures relating to corporate identity are described in detail on page 69 under "Branding and logo".

H+H strongly believes that the combination of operating with a centralised and focused sales strategy along with powerful locally based companies in each country implementing the strategy is the path to growth. It is essential that the powerful operational units are continuously developed and strengthened. The H+H Group has a flat structure with a small centralised management in the parent company H+H International A/S. Communication across the Group is therefore simple and efficient, involving very few links.

Besides centrally initiated processes, the companies continuously exchange experience internationally. Working groups have been set up in a number of areas to discuss relevant and well-defined problems. For example, a working group consisting of technicians has been set up, charged with exploring knowledge-sharing across the Group concerning product development.

In the years ahead, H+H will continue focusing on measures that can promote exchange of experience and sharing of best practice among the H+H companies. The individual companies in the various countries will also increasingly involve their customers in order to gather critical and constructive feedback. The work on the experience gathered contributes to a common awareness among everyone at H+H of what creates value for the customers and thus for H+H.

CORPORATE GOVERNANCE

Corporate governance policy

H+H International A/S's Supervisory Board discusses the company's corporate governance policy at least once a year. Most recently, the Supervisory Board has considered the 2005 revised recommendations for good corporate governance, and, against that background, has revised the company's corporate governance policy. H+H International A/S is of the view that the company complies with the revised recommendations for good corporate governance in all material respects.

The complete wording of H+H International A/S's corporate governance policy can be viewed at www.HplusH.com. The main elements of the company's policy are described below, including particularly the points on which the company has elected not to follow the recommendations.

Relations with shareholders and other stakeholders

H+H International A/S informs and communicates with its shareholders and other stakeholders via the company's website, investor presentations, quarterly financial statements, annual report, Stock Exchange Announcements in general and the Annual General Meeting.

Openness and transparency

H+H International A/S attaches importance to complying with its disclosure obligations according to the legislation and the rules for issuers of shares on the Copenhagen Stock Exchange, and issues all Stock Exchange Announcements in both Danish and English. From 2007 all presentations from public investor meetings will be placed on the company's website at the same time as the presentations are being made.

Supervisory Board

The Supervisory Board currently consists of seven members elected by the shareholders in general meeting, including a chairman elected by the Supervisory Board. The Supervisory Board has decided to only elect a deputy chairman if it estimates that there is a need for this. The Supervisory Board considers that at present there are no issues necessitating a deputy chairman to be elected. The majority of the members of the Supervisory Board are independent of the company and of the principal shareholder, Henriksen og Henriksen I/S. The Executive Board is not part of the Supervisory Board.

The Supervisory Board's nomination of candidates to the Supervisory Board is not subject to pre-defined general criteria. The Supervisory Board is of the opinion that rigid, generally applicable criteria may exclude candidates whose competencies deviate from such pre-defined selection criteria and may also prevent an optimum composition of the Supervisory Board. Instead the Supervisory Board believes that an individual and specific evaluation should be carried out of each candidate based on the company's needs at the time of nomination.

As part of its corporate governance policy the Supervisory Board has decided not to set any upper limit on the number of Supervisory Board posts and other managerial posts a Supervisory Board member may hold besides his post as Supervisory Board member of H+H International A/S, as the work commitments associated with such posts vary considerably from company to company. Instead the Supervisory Board believes that a specific assessment should be made as to whether the candidate has enough time available to devote to the job as Supervisory Board member of H+H International A/S.

The chairman of the Supervisory Board is responsible for ensuring that the work, results and composition of the Supervisory Board as well as the work and results of the individual members are reviewed annually. As part of this evaluation the chairman personally interviews each member, and the Supervisory Board may draw on external assistance for the evaluation. Lastly, the chairman discusses the composition of the Supervisory Board with H+H International A/S's principal shareholder, Henriksen og Henriksen I/S, which is the only A shareholder. On the basis of the personal interviews and contributions from external consultants, if any, the chairman of the Supervisory Board presents the conclusions of the evaluation to the Supervisory Board and makes proposals for any relevant changes to the Supervisory Board's work procedures, composition and use of the individual members' competencies, to safeguard the effectiveness and quality of the Supervisory Board's work.

Prior to each financial year the Supervisory Board fixes its meeting schedule for the coming year. In 2006 the Supervisory Board held a total of nine meetings, including a meeting at one of H+H's factories in Poland and a strategy seminar. The Supervisory Board has not appointed any permanent committees, but instead appoints ad hoc committees as required. At the end of 2006 an ad hoc committee was appointed to analyse and make recommendations to the Supervisory Board concerning a future incentive programme for the Executive Board and other key management personnel.

Remuneration to the Supervisory Board and the Executive Board

The members of H+H International A/S's Supervisory Board are paid a fixed fee and are not part of any incentive scheme. The Supervisory Board's fixed remuneration is determined at a competitive level viewed in relation to the Board's duties and responsibilities and work input in the form of the scope of the work and the number of Board meetings. The fixed remuneration of the chairman of the Supervisory Board amounts to 2.5 times that of the ordinary Supervisory Board members. Besides the fixed remuneration Supervisory Board members may receive special remuneration for extraordinary work such as participation in appointed ad hoc Board committees. The special remuneration is determined based on the same criteria as the fixed remuneration. None of the Supervisory Board's members has received special remuneration for 2006.

The shareholders in general meeting approve Supervisory Board members' renumeration.

The Supervisory Board determines the elements and principles of remuneration to the Executive Board. The Executive Board's remuneration consists of a fixed annual salary and incentive pay. Criteria and targets for the vesting of incentive pay for the coming financial year are agreed annually based on an evaluation of criteria such as the Executive Board's responsibilities, scope of work and performance requirements.

There is no pension scheme, and no unusual termination benefit plan has been agreed for the Executive Board.

Remuneration for 2006 for the Executive Board and the Supervisory Board is set out in note 3. The company's incentive scheme for the Executive Board and other key management personnel is described on page 19 and in note 24.

Risk management

A detailed review of the company's risk management is given on pages 16 and 17.

Audit

Agreement on auditing of H+H International A/S's annual report is entered into between the Supervisory Board and the auditor. At the Supervisory Board meeting at which the Supervisory Board is to decide on the nomination to the shareholders in Annual General Meeting of an auditor, the Supervisory Board evaluates the current auditor's competencies and independence in the light of the scope of non-audit services provided by the auditor in the previous financial year. The Supervisory Board thus bases its evaluation on the scope and content of the specific non-audit services provided rather than on a pre-defined limit for the scope of the auditor's non-audit services.

Company management

SUPERVISORY BOARD

The term of office of all Supervisory Board members expires at the company's Annual General Meeting on 12 April 2007. The members may stand for re-election for the period from 12 April 2007 until the company's Annual General Meeting in 2008.

Anders C. Karlsson (57)

President of IPEG AB, Sweden

- Chairman. Joined the Supervisory Board in 2005 and since re-elected
- Holds 500 H+H International A/S B shares, all acquired in 2006

Supervisory Board memberships

- Inwido AB (chairman), Sweden
- Ludesi AB (chairman), Sweden
- Rapid Granulator AB (chairman), Sweden.
- Air Liquide Gas AB, Sweden
- Lindab AB, Sweden
- Lasabotte AB, Sweden
- Tele P AB, Sweden

Christian Harlang (54)

Proprietor of Advokatfirma Christian Harlang

- Joined the Supervisory Board in 1992 and since re-elected
- Member of the Supervisory Board and manager of Enkefru Plums Støttefond, which is a partner in Henriksen og Henriksen I/S, which holds all A shares in H+H International A/S. Enkefru Plums Støttefond also holds 9,746 H+H International A/S B shares

Supervisory Board memberships

- Valør & Tinge A/S (chairman)
- Enkefru Plums Støttefond (member and administrator)

Henrik Lind (59)

Partner in the law firm Gorrissen Federspiel Kierkegaard

- Joined the Supervisory Board in 1987 and since re-elected
- Partner in law firm that offers advice to H+H International A/S on certain legal issues

Supervisory Board memberships

- Skako Industries A/S

Bjarne Olesen (52)

Executive Director (Building & Installation) in Wavin B.V. Group, the Netherlands

- Joined the Supervisory Board in 2005 and since re-elected

Supervisory Board memberships

- Wavin Ekoplastika s.r.o., Kostelec, Czech Republic
- M.P.C., Strezelin, Poland

Kresten Andersen Bergsøe (40)

Founder and managing director of Talefod A/S

- Joined the Supervisory Board in 2001 and since re-elected
- Holds (indirectly) 79,020 H+H International A/S B shares, 12,500 of which were acquired in 2006
- Partner in and related to a partner in Henriksen og Henriksen I/S and shareholder in Holdingselskabet af 9/11 2001 ApS, which is a partner in Henriksen og Henriksen I/S. Henriksen og Henriksen I/S holds all A shares in H+H International A/S

Supervisory Board memberships

- A/S Saltbækvig
- Holdingselskabet af 9/11 2001 ApS
- Talefod A/S

Laurids A. Jessen (62)

Proprietor and managing director of Danebroge ApS

- Joined the Supervisory Board in 2005 and since re-elected
- Holds (directly and indirectly) 4,235 H+H International A/S B shares, 1,235 of which were acquired in 2006

Supervisory Board memberships

- Blücher Holding A/S and a subsidiary (chairman)
- Skako Industries A/S and a subsidiary (chairman)
- SmallCap Danmark A/S
- Investeringsforeningen SmallCap Danmark

Niels Roth (49)

Director in Zira Invest ApS

- Joined the Supervisory Board in 2005 and since re-elected
- Holds (directly and indirectly) 4,000 H+H International A/S B shares, 1,000 of which were acquired in 2006

Supervisory Board memberships

- Foreningen Fast Ejendom, Dansk Ejendomsportefølje f.m.b.a. (chairman)
- Friheden Invest A/S (chairman)
- NPC A/S (chairman)
- TKD Nordeuropa A/S (deputy chairman)
- SmallCap Danmark A/S
- Investeringsforeningen SmallCap Danmark

EXECUTIVE BOARD

Hans Gormsen (55)

CEO

- Holds 500 H+H International A/S B shares, all acquired in 2006

Michael Witthohn (48)

Executive Vice President

SENIOR EXECUTIVES

Michael J. Flynn (61)

COO

- Managing Director of the subsidiary H+H UK Limited

Martin Busk Andersen (37)

Vice President, Finance

Henrik Dietrichsen (35)

Vice President, Sales & Marketing

Statement by the Executive and Supervisory Boards

The Executive and Supervisory Boards have today considered and approved the annual report for 2006 of H+H International A/S, which comprises the statement by the Executive and Supervisory Boards, management's review, income statement, balance sheet, statement of changes in equity, cash flow statement and notes.

The annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. We consider the accounting policies used to be appropriate. Accordingly, the annual report gives a true and fair view of the Group's and the parent company's assets, liabilities and financial position at 31 December 2006 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 2006.

We recommend that the annual report be approved at the Annual General Meeting.

Copenhagen, 15 March 2007

Executive Board

Hans Gormsen
CEO

Michael Witthohn
Executive Vice President

Supervisory Board

Anders C. Karlsson
Chairman

Kresten Andersen Bergsøe

Christian Harlang

Laurids A. Jessen

Henrik Lind

Bjarne Olesen

Niels Roth

Independent auditors' report

To the shareholders of H+H International A/S:
We have audited the annual report of H+H International A/S for the financial year ended 31 December 2006, which comprises the statement by the Executive and Supervisory Boards, management's review, income statement, balance sheet, statement of changes in equity, cash flow statement and notes. The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

Management is responsible for the preparation and fair presentation of the annual report in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an annual report that is free from material misstatement, whether due to fraud or error; selecting and using appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Basis of opinion
Our responsibility is to express an opinion on the annual report based on our audit. We conducted our audit in accordance with Danish standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual report, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the annual report 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the annual report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit did not result in any qualification.

Opinion
In our opinion, the annual report gives a true and fair view of the Group's and the parent company's assets, liabilities and financial position at 31 December 2006 and of the results of the Group's and the parent company's operations and cash flows for the financial year ended 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

Copenhagen, 15 March 2007

Audit

KPMG C. Jespersen
Statsautoriseret Revisionsinteressentskab

H.J. Borgen
State Authorised Public Accountant

David Olafsson
State Authorised Public Accountant

Kresten Foged
Statsautoriseret Revisionsaktieselskab

Lars Skovgaard-Sørensen
State Authorised Public Accountant

Jan Østergaard
State Authorised Public Accountant

Income statement

		Group		Parent company	
Note	DKK '000	**2006**	**2005**	**2006**	**2005**
2	Revenue	1,662,392	1,354,436	0	0
	Cost of sales	(739,557)	(546,677)	0	0
	Gross profit	**922,835**	**807,759**	**0**	**0**
	Other external expenses	(354,073)	(305,263)	(9,188)	(9,237)
3	Staff costs	(334,273)	(278,862)	(12,670)	(9,800)
4	Depreciation, amortisation and impairment losses	(105,686)	(87,616)	(500)	(412)
5	Other operating income and expenses	71	5,543	14,636	14,068
		(793,961)	(666,198)	(7,722)	(5,381)
	Operating profit (loss)	**128,874**	**141,561**	**(7,722)**	**(5,381)**
6	Financial income	614	10,430	47,867	38,069
7	Financial expenses	(15,449)	(4,204)	(3,393)	(307)
		(14,835)	6,226	44,474	37,762
	Profit before tax	**114,039**	**147,787**	**36,752**	**32,381**
8	Tax on profit	(39,773)	(47,484)	(14,675)	(2,116)
	Profit for the year	**74,266**	**100,303**	**22,077**	**30,265**
	Attributable to				
	Equity holders of H+H International A/S	74,630	100,321		
	Minority interest	(364)	(18)		
	Profit for the year	**74,266**	**100,303**		
	Distribution of profit				
	Retained earnings			(1,123)	(10,335)
	Dividend for the year DKK 20 per share of nominally DKK 100 (2005: DKK 35)			23,200	40,600
	Profit for the year			**22,077**	**30,265**
20	Earnings per share (EPS)	65.02	88.22		
20	Diluted earnings per share (EPS-D)	64.93	87.49		

Balance sheet at 31 December

ASSETS

		Group		Parent company	
Note	DKK '000	**2006**	**2005**	**2006**	**2005**
	Non-current assets				
	Intangible assets				
	Goodwill	90,079	70,483	0	0
	Other intangible assets	12,972	2,980	5,915	0
9		103,051	73,463	5,915	0
	Property, plant and equipment				
	Land and buildings	433,069	332,256	0	0
	Plant and machinery	565,627	507,877	0	0
	Fixtures and fittings, tools and equipment	79,392	38,890	2,437	640
	Property, plant and equipment in the course of construction	42,343	75,648	0	0
9		1,120,431	954,671	2,437	640
	Other non-current assets				
15	Deferred tax assets	24,729	18,369	0	8,060
11	Investments in Group subsidiaries	0	0	1,233,180	1,176,969
	Receivables from Group enterprises	0	0	279,534	373,416
	Securities	139	139	0	0
		24,868	18,508	1,512,714	1,558,445
	Total non-current assets	**1,248,350**	**1,046,642**	**1,521,066**	**1,559,085**
	Current assets				
13	Inventories	172,449	141,171	0	0
	Receivables				
14	Trade receivables	184,557	118,418	0	0
	Tax receivable	1,808	0	0	0
	Other receivables	20,417	22,926	1,169	515
	Prepayments	4,839	4,855	142	0
		211,621	146,199	1,311	515
	Cash and cash equivalents	**5,739**	**85,533**	**28**	**18**
	Total currents assets	**389,809**	**372,903**	**1,339**	**533**
	TOTAL ASSETS	**1,638,159**	**1,419,545**	**1,522,405**	**1,559,618**

EQUITY AND LIABILITIES

		Group		Parent company	
Note	DKK '000	**2006**	**2005**	**2006**	**2005**
	Equity				
	Share capital	116,000	116,000	116,000	116,000
	Translation reserve	12,379	7,333	0	0
	Hedging reserve	(1,862)	0	0	0
	Retained earnings	720,696	663,548	1,339,310	1,331,033
	Proposed dividend	23,200	40,600	23,200	40,600
	Total equity attributable to equity holders of H+H International A/S	**870,413**	**827,481**	**1,478,510**	**1,487,633**
	Minority interest	19	208	0	0
	Total equity	**870,432**	**827,689**	**1,478,510**	**1,487,633**
	Liabilities				
	Non-current liabilities				
21	Pension obligations	94,322	91,682	0	0
17	Provisions	13,355	17,375	0	0
16	Deferred tax liabilities	68,345	51,367	7,715	0
23	Lease obligations	2,017	164	0	0
	Other non-current liabilities	2,888	0	0	0
		180,927	160,588	7,715	0
	Current liabilities				
25	Bank loans	355,677	208,605	6,579	33,576
	Trade payables	122,332	97,429	996	2,344
17	Provisions	5,299	0	0	0
23	Lease obligations	1,110	259	0	0
	Income tax	8,296	13,915	82	8,085
	Payables to Group subsidiaries	0	0	24,842	26,554
	Other payables	94,086	111,060	3,681	1,426
		586,800	431,268	36,180	71,985
	Total liabilities	**767,727**	**591,856**	**43,895**	**71,985**
	TOTAL EQUITY AND LIABILITIES	**1,638,159**	**1,419,545**	**1,522,405**	**1,559,618**

Note Accounting and supplementary information

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Cash flow statement for the year

	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Operating activities				
Operating profit (loss)	128,874	141,561	(7,722)	(5,381)
Net financing costs	(14,835)	6,226	44,474	37,762
Depreciation, amortisation and impairment losses	105,686	87,616	500	412
Other adjustments	3,344	732	378	247
Change in inventories	(22,242)	(7,022)	0	0
Change in receivables	(36,215)	(16,959)	(797)	25
Change in trade payables and other payables	(56,765)	41,133	909	(9,014)
Income tax paid	(47,934)	(46,740)	(19,085)	0
	59,913	206,547	18,657	24,051
Investing activities				
Selling prices for other disposals of property, plant and equipment.	1,827	17,109	188	15,180
Acquisition of enterprises and capital contributions in subsidiaries	(92,214)	(141,763)	(55,534)	(58,382)
Acquisition of property, plant, equipment and intangibles	(156,045)	(122,117)	(8,264)	(33)
	(246,432)	(246,771)	(63,610)	(43,235)
Financing activities				
Dividend to equity holders of H+H International A/S	(40,239)	(39,922)	(40,239)	(39,922)
Buyback/sale of treasury shares (net)	2,625	6,915	7,980	15,909
Change in intragroup balances	0	0	104,221	(111,086)
Repayment and reduction of long-term debt	(609)	(125,589)	0	0
Increase in short-term debt	144,817	95,344	(26,999)	33,576
	106,594	(63,252)	44,963	(101,523)
Net increase (decrease) in cash and cash equivalents	**(79,925)**	**(103,476)**	**10**	**(120,707)**
Cash and cash equivalents at 1 January	85,533	188,818	18	120,725
Foreign exchange adjustments of cash and cash equivalents	131	191	0	0
Cash and cash equivalents at 31 December	**5,739**	**85,533**	**28**	**18**

Statement of changes in equity

Group								
DKK '000	Share-capital	Translation reserve	Hedging reserve	Retained earnings	Proposed dividend	Total	Minority interest	Total
Equity at 1 January 2005	**116,000**	**(5,262)**	**0**	**593,947**	**40,600**	**745,285**	**0**	**745,285**
Changes in equity in 2005								
Foreign exchange adjustments, foreign companies	0	12,595	0	0	0	12,595	5	12,600
Share-based payment	0	0	0	1,013	0	1,013	0	1,013
Tax on changes in equity	0	0	0	1,274	0	1,274	0	1,274
Net gains recognised directly in equity	0	12,595	0	2,287	0	14,882	5	14,887
Profit for the year	0	0	0	59,721	40,600	100,321	(18)	100,303
Total recognised income and expense for the year	**0**	**12,595**	**0**	**62,008**	**40,600**	**115,203**	**(13)**	**115,190**
Dividend paid	0	0	0	0	(40,600)	(40,600)	0	(40,600)
Addition on acquisition of enterprise	0	0	0	0	0	0	221	221
Sale of treasury shares	0	0	0	6,915	0	6,915	0	6,915
Dividend, treasury shares	0	0	0	678	0	678	0	678
Total changes in equity in 2005	**0**	**12,595**	**0**	**69,601**	**0**	**82,196**	**208**	**82,404**
Equity at 31 December 2005	**116,000**	**7,333**	**0**	**663,548**	**40,600**	**827,481**	**208**	**827,689**
Changes in equity in 2006								
Foreign exchange adjustments, foreign companies	0	5,046	0	0	0	5,046	0	5,046
Share-based payment	0	0	0	1,208	0	1,208	0	1,208
Recognised gains/losses for the year	0	0	(2,660)	0	0	(2,660)	0	(2,660)
Tax on changes in equity	0	0	798	1,888	0	2,686	0	2,686
Net gains recognised directly in equity	0	5,046	(1,862)	3,096	0	6,280	0	6,280
Profit for the year	0	0	0	51,066	23,200	74,266	364	74,630
Total recognised income and expense for the year	**0**	**5,046**	**(1,862)**	**54,162**	**23,200**	**80,546**	**364**	**80,910**
Dividend paid	0	0	0	0	(40,600)	(40,600)	0	(40,600)
Redemption of minority shareholders	0	0	0	0	0	0	(553)	(553)
Sale of treasury shares	0	0	0	6,112	0	6,112	0	6,112
Buyback of treasury shares	0	0	0	(3,487)	0	(3,487)	0	(3,487)
Dividend, treasury shares	0	0	0	361	0	361	0	361
Total changes in equity in 2006	**0**	**5,046**	**(1,862)**	**57,148**	**(17,400)**	**42,932**	**(189)**	**42,743**
Equity at 31 December 2006	**116,000**	**12,379**	**(1,862)**	**720,696**	**23,200**	**870,413**	**19**	**870,432**

Statement of changes in equity

	Parent company			
DKK '000				
	Share-capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2005	**116,000**	**1,323,884**	**40,600**	**1,480,484**
Changes in equity in 2005				
Share-based payment	0	1,013	0	1,013
Tax on changes in equity	0	(116)	0	(116)
Net gains recognised directly in equity	0	897	0	897
Profit for the year	0	(10,335)	40,600	30,265
Total recognised income and expense for the year	**0**	**(9,438)**	**40,600**	**31,162**
Dividend paid	0	0	(40,600)	(40,600)
Sale of treasury shares and re-invoicing of exercised share options	0	15,909	0	15,909
Dividend, treasury shares	0	678	0	678
Total changes in equity in 2005	**0**	**7,149**	**0**	**7,149**
Equity at 31 December 2005	**116,000**	**1,331,033**	**40,600**	**1,487,633**
Changes in equity in 2006				
Share-based payment	0	1,208	0	1,208
Tax on changes in equity	0	(149)	0	(149)
Net gains recognised directly in equity	0	1,059	0	1,059
Profit for the year	0	(1,123)	23,200	22,077
Total recognised income and expense for the year	**0**	**(64)**	**23,200**	**23,136**
Dividend paid	0	0	(40,600)	(40,600)
Sale of treasury shares and re-invoicing of exercised share options	0	11,467	0	11,467
Buyback of treasury shares	0	(3,487)	0	(3,487)
Dividend, treasury shares	0	361	0	361
Total changes in equity in 2006	**0**	**8,277**	**(17,400)**	**(9,123)**
Equity at 31 December 2006	**116,000**	**1,339,310**	**23,200**	**1,478,510**

Notes

1 Accounting policies

The annual report of H+H International A/S for 2006 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies, cf. the Copenhagen Stock Exchange disclosure requirements for annual reports of listed companies and the Danish statutory order on adoption of IFRS issued pursuant to the Danish Financial Statements Act.

In addition, the annual report has been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the IASB.

Basis of preparation

The annual report is presented in DKK rounded to the nearest DKK 1,000.

The annual report has been prepared using the historical cost principle. However, non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount before the reclassification and fair value less costs to sell.

The accounting policies set out below have been applied consistently during the financial year and to the comparative figures.

The accounting policies remain unchanged from the prior year.

Change in accounting policies

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 39 Financial Instruments: Recognition and Measurement, both of which became operative from 1 January 2006, have not had any effect on the H+H Group's financial reporting.

In the case of the parent company's financial statements, the implementation of IAS 39 Financial Instruments: Recognition and Measurement, which became operative from 1 January 2006, has meant that financial guarantees provided to banks relating to their loans to subsidiaries are now recognised at fair value at the date of inception. Guarantees provided are subsequently measured at the higher of original fair value less amortisation and the expected loss.

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 the power to govern the financial and operating policies so as to obtain 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 the power to control 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 Group's accounting policies. Intragroup income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains and losses arising from intragroup transactions are eliminated on consolidation.

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.

Business combinations

Enterprises acquired during the year are recognised in the consolidated financial statements from the date of acquisition. Enterprises disposed of during the year are recognised in the consolidated income statement up to the date of disposal. Comparative figures are not restated to reflect acquisitions.

On acquisition of enterprises whereby the parent company obtains control of the acquiree the purchase method is applied. The acquirees' identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition. Identifiable intangible assets are recognised if they are separable or arise from a contractual right, and the fair value can be measured reliably. Deferred tax on the restatements made is recognised.

In the case of business combinations occurring on or after 1 January 2004, the excess of the cost over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recognised as goodwill under intangible assets. Goodwill is not amortised, but tested annually for im-

Notes

1 Accounting policies – continued

pairment. The first impairment test is carried out before the end of the year of acquisition. On acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for the impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a different functional currency than DKK are accounted for as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date.

The classification of business combinations occurring before 1 January 2004 has not been changed. Goodwill is recognised on the basis of the cost that was recognised under the existing accounting policies (Danish Financial Statements Act and Danish Accounting Standards) less amortisation and impairment losses up to 31 December 2003. Goodwill is not amortised after 1 January 2004, but tested annually for impairment. The way in which business combinations occurring before 1 January 2004 are accounted for has not been changed in connection with the opening balance sheet at 1 January 2004.

If the measurement of identifiable assets acquired and liabilities and contingent liabilities assumed is subject to uncertainty at the date of acquisition, these are recognised initially on the basis of provisional fair values. Goodwill from business combinations may be adjusted for up to twelve months following their acquisition if the fair value of the identifiable assets, liabilities and contingent liabilities subsequently proves to differ from the fair value assumed at the time of acquisition. The effect of any such adjustments is recognised in opening equity, and the comparative figures are restated accordingly. Subsequently, goodwill is only adjusted as a consequence of changes in estimated contingent purchase consideration, except in the case of material errors; however, subsequent realisation of the acquiree's deferred tax assets that were not recognised at the date of acquisition leads to recognition of the tax benefit in the income statement and simultaneous reduction of the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset at the date of acquisition.

Gains or losses on disposal of subsidiaries are determined as the difference between the selling price or proceeds on disposal and the carrying amount of net assets including goodwill at the date of disposal and costs to sell. Insofar as goodwill from business combinations occurring before 1 January 2002 has been written off immediately directly to equity, the carrying amount at the date of disposal is DKK 0.

Derivative financial instruments

Derivative financial instruments are recognised from the trade date and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables and other payables, respectively, and offsetting of positive and negative values is only effected if the enterprise is permitted to and intends to settle several financial instruments net in cash. Fair values of derivative financial instruments are determined on the basis of current market data and recognised valuation methods.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as hedges of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the value of the hedged asset or liability to the extent of the hedged risk. Hedging of the value of future cash flows from contracts concluded is accounted for as hedging of the fair value of a recognised asset or liability, except in the case of foreign currency hedging.

Changes in the portion of the fair value of derivative financial instruments that is designated as and qualifies for recognition as a hedge of future cash flows and that provides an effective hedge against changes in the value of the hedged item are recognised in equity under a separate reserve for hedging transactions until the hedged transaction is realised. At that time, the resulting gain or loss is transferred from equity and recognised in the same item as the hedged item. However, on hedging of the proceeds from future loans, the resulting gain or loss is transferred from equity over the term of the loan.

For derivative financial instruments that do not qualify for hedge accounting, fair value changes are recognised in the income statement under net financing costs when they occur.

Changes in the fair value of derivative financial instruments that are used to hedge net investments in foreign subsidiaries or associates and that provide an effective hedge against changes in foreign exchange rates in these subsidiaries or associates are recognised in the consolidated financial statements directly in equity under a separate translation reserve.

Some contracts embody conditions corresponding to derivative financial instruments. Such embedded financial instruments are recognised separately and measured at fair value on a continuing basis if they differ significantly from the host contract, unless the entire combined contract is recognised and measured at fair value on a continuing basis.

Foreign currency translation

For each enterprise included in the consolidated financial statements a functional currency has been determined. The functional currency of an enterprise is the currency of the primary economic environment in which the enterprise operates. Transactions in other currencies 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 at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in the income statement as financial income or financial expenses.

On recognition in the consolidated financial statements of foreign enterprises with a different functional currency than DKK, the items in the income statements are translated at the exchange rates at the transaction date and the 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 enterprises at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognised directly in equity.

Foreign exchange adjustments of balances with foreign enterprises that are accounted for as part of the overall net investment in the enterprise in question are recognised in the consolidated financial statements directly in equity.

INCOME STATEMENT

Revenue from the sale of goods for resale and finished goods is recognised in the income statement if risk has passed to the buyer, 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 discounts and rebates granted are recognised in revenue.

Cost of sales comprises costs incurred in generating the revenue for the year. The trading enterprises recognise cost of sales and the producing enterprises' production costs, equivalent to revenue for the year. This includes the direct and indirect cost of raw materials and consumables.

Other external expenses cover other expenses, including purchases of goods and services that are not directly attributable to production.

Other external expenses also include research and development costs that do not meet the criteria for capitalisation.

Other operating income and expenses comprise items secondary to the enterprises' activities, such as gains and losses on disposal of property, plant and equipment.

Financial income and expenses comprise interest income and expense, capital gains and losses and impairment losses relating to securities, payables and transactions denominated in foreign currencies.

Interest expense related to the financing the production of the Group's assets is recognised in the cost of the assets.

Notes

1 Accounting policies – continued

Dividends from investments in subsidiaries are credited to the parent company's income statement in the financial year in which they are declared; however, dividends received in excess of the accumulated profits arising after the date of acquisition are not credited to the income statement but recognised as a reduction of the cost of the investment.

Income tax expense. Income tax expense 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 relates to amounts directly recognised in equity is recognised directly in equity.

BALANCE SHEET

Goodwill is recognised initially in the balance sheet at cost as described under 'Business combinations'. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the Group's cash-generating units at the date of acquisition. The determination of cash-generating units follows the Group's organisational and internal reporting structure.

On disposal of enterprises acquired before 1 January 2002, where, under the previous accounting policies, goodwill was written off immediately directly to equity, and where, pursuant to the exemption provision in IFRS 1, goodwill has not been recapitalised, the value of goodwill written off immediately is recognised at the carrying amount (DKK 0) in connection with the determination of profits or losses on disposal of enterprises.

Other intangible assets comprise development projects, patents, licences and other intangible assets.

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 enterprise can be demonstrated, and which the enterprise 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 when incurred.

Recognised development costs are measured at cost less accumulated amortisation and impairment losses. Cost comprises salaries, amortisation and other expenses attributable to the Group's development activities and interest expense on loans to finance the production of 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 lives of the assets. 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 accumulated 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, and fixtures and fittings, 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. 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 expense on loans to finance the production of property, plant and equipment that relate to the production period. The cost of a combined asset is divided into separate constituents that are depreciated separately if the constituents 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 internal rate of return of the lease is used as discount rate or an approximated value.

Subsequent expenses, for example in connection with replacement of constituents of an item of property, plant or equipment, are recognised in the carrying amount of the asset in question when it is probable that future economic benefits will flow to the Group from the expenses incurred. Recognition of the replaced constituents in the balance sheet ceases and the carrying amount is taken 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:

Buildings	10-50 years
Plant and machinery	2-20 years
Fixtures and fittings, tools and equipment	2-10 years
Land is not depreciated	

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 of any changes in depreciation period or residual value on depreciation is recognised prospectively as a change in accounting estimates.

Investments in subsidiaries in the parent company's financial statements. Investments in subsidiaries are measured at cost. Cost is written down to the recoverable amount whenever the cost exceeds the recoverable amount.

Cost is reduced to the extent that dividends received exceed the accumulated profits after the date of acquisition.

Impairment of assets. Goodwill and intangible assets with an indefinite useful life are tested for impairment annually, the first time before the end of the year of acquisition. Development projects in process are similarly tested for impairment annually.

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 enterprise or activity (cash-generating unit) to which the goodwill relates. Impairment losses relating to goodwill are recognised as a separate line item in the income statement.

The carrying amounts of other non-current assets, other than deferred tax assets, are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less expected disposal costs and its value in use.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement as depreciation, amortisation and impairment losses.

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 if no impairment losses had been charged.

Inventories are measured at cost using the FIFO method. Where the net realisable value is lower than the cost, inventories are written down to this lower value.

In the case of goods for resale, and raw materials and consumables, cost comprises purchase price plus expenses incurred in bringing the inventories to their existing location and condition.

In the case of finished goods and work in progress, cost comprises raw materials, consumables, direct labour, and production overheads. Production overheads comprise indirect materials and indirect 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

Notes

1 Accounting policies – continued

the basis of marketability, obsolescence and development of expected selling price.

Receivables are recognised in the balance sheet at amortised cost, which in all material respects corresponds to the nominal value less write-downs for bad and doubtful debts. Write-downs for bad and doubtful debts are determined on the basis of individual assessment of each receivable.

Prepayments recognised under assets comprise expenses incurred in respect of subsequent financial years.

Proposed dividends are recognised as a liability at the date of adoption at the Annual General Meeting (declaration date). The expected dividend for the year is disclosed as a separate item under equity.

Treasury shares. Acquisition costs, disposal costs and dividends relating to treasury shares are recognised directly as retained earnings under equity. Capital reductions on 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.

The translation reserve in the consolidated financial statements comprises foreign exchange adjustments arising on translation of the financial statements of foreign enterprises from their functional currencies to the presentation currency (DKK) of the H+H Group.

The foreign exchange adjustments are recognised in the income statement on realisation or partial realisation of the net investment.

The translation reserve has been deemed to be zero at 1 January 2004 in accordance with IFRS 1.

Incentive schemes. The H+H Group's incentive schemes comprise a share option plan for senior executives.

The value of services rendered by employees in return for option grants is measured at the fair value of the options.

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.

The costs are set off directly against equity.

On initial recognition of the share options, the number of options expected to vest is estimated, cf. the service condition described in note 24. The estimate of the number of vested options is adjusted subsequently, so that the total recognition is based on the actual number of vested options.

The fair value of the options granted is estimated using an option price model. The calculation takes account of the terms and conditions attaching to the share options granted.

Pension obligations. The Group has entered into pension agreements and similar agreements with most 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 Group. The actuarially determined value in use less the fair value of any plan assets is recognised in the balance sheet under pension obligations, except as provided below.

In the income statement the pension cost for the year is recognised based on actuarial estimates and the financial outlook at the start of the year. In addition, a proportion of the cumulative actuarial gains or losses at the start of a financial year are recognised, if these exceed the greater of the numerical value of 10% of the pension obligations and 10% of the fair value of the plan assets. The amount in question is recognised in the income statement over the participating employees' expected average remaining working lives with the company. The proportion of actuarial gains/losses that is not recognised is disclosed in a note. In connection with the transition to IFRS, cumulative actuarial gains and losses have been recognised in full in the opening balance sheet at 1 January 2004.

In the case of a change in benefits for employee service with the enterprise in prior periods, a change in the actuarially determined value in use arises which is designated as a historical cost. Historical costs are charged to the income statement immediately to the extent that the amended benefits have already vested. If not, they are recognised in the income statement over the vesting period for the amended benefits.

When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and the present value of any currently available future refunds from the plan or reductions in future contributions to the plan.

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 amounts of assets and liabilities and the amounts used for taxation purposes; however, the following temporary differences are not provided for: goodwill not deductible for tax purposes, office properties and other items – apart from business combinations – where temporary differences have arisen at the date of acquisition that affect neither accounting nor taxable profit. 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.

Adjustment of deferred tax is made in respect of elimination of unrealised intragroup 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 management company, becomes liable for the subsidiaries' income taxes to the tax authorities as the subsidiaries' joint taxation contributions are received. Joint taxation contributions payable and receivable are recognised in the balance sheet under balances with group subsidiaries.

Provisions. Provisions are recognised when, as a result of an event occurring before or at the balance sheet date, the 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.

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 society's general interest rate level plus the specific risks that are estimated to attach to the provision. The changes in present values during the financial year are recognised under financial expenses.

The measurement of provisions is based on management's best estimates of the amount expected to be required to settle the obligation.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data.

When the 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.

Financial liabilities. 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

Notes

1 Accounting policies – continued

rate method. Accordingly, the difference between the proceeds and the nominal amount 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.

Other liabilities are measured at net realisable value.

Deferred income recognised under liabilities comprises payments received in respect of income in subsequent years.

Presentation of discontinued operations. A discontinued operation is an entity the operations and cash flows of which can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity, and that has either been disposed of or is classified as held for sale, and is expected to be sold within twelve months under a formal plan. Discontinued operations also include enterprises acquired exclusively with a view to resale.

The post-tax profits/losses and value adjustments of discontinued operations are presented as a separate line item in the income statement with comparative figures. Revenue, expenses and tax of discontinued operations are disclosed in the notes. Likewise, assets and associated liabilities are presented separately in the balance sheet, and the principal items are specified in the notes.

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 changes 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 enterprises is shown separately under cash flows from investing activities. Cash flows from acquisitions of enterprises are recognised in the cash flow statement from the date of acquisition, and cash flows from disposals of enterprises are recognised up to the date of disposal.

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

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises 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.

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, repurchase and sale of treasury shares, and payment of dividends.

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.

SEGMENT INFORMATION

The Group's primary segment is the geographical segments. The segments reflect the Group's risks and organisational and internal reporting structure. The segment information has been prepared in accordance with the Group's accounting policies.

Segment income, segment expense, 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 reasonable basis. Unallocated items comprise primarily assets, liabilities, income and expense relating to the Group's administrative functions, 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.

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 Society of Financial Analysts' 'Recommendations & Ratios 2005'.

The financial ratios under financial highlights 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 (ROIC)	$\frac{\text{Operating profit x 100}}{\text{Average operating assets}}$
Profit	Profit attributable to the equity holders of the parent
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	$\frac{\text{Profit x 100}}{\text{Average equity excl. minority interests}}$
Solvency ratio	$\frac{\text{Equity at year end attributable to the H+H Group x 100}}{\text{Total liabilities, year-end}}$
Book value per share, year-end	$\frac{\text{H+H Group's equity, year-end}}{\text{Year-end number of shares}}$
Price/book value	$\frac{\text{Price}}{\text{Year-end book value per share}}$
Price earnings ratio (PE)	$\frac{\text{Price}}{\text{Earnings per share}}$
Price earnings ratio (PE-diluted)	$\frac{\text{Price}}{\text{Earnings per share - diluted}}$
Payout ratio	$\frac{\text{Total dividend paid x 100}}{\text{Profit}}$

Notes

2 Segment information — Group

DKKm	2006					
	UK	Germany and Denmark	Eastern Europe ***	Nordic countries	Eliminations and non-allo-cated items	Group total
Revenue, external	664.0	537.9	187.4	273.1	0.0	1.662.4
Revenue, internal	0.0	12.6	0.0	0.0	(12.6)	0.0
EBITDA	107.6	145.6	(15.2)	18.9	22.3	234.6
EBIT *	66.4	104.6	(30.4)	11.1	22.8	128.9
Profit (loss) before tax **	62.1	97.1	(41.2)	8.0	12.0	114.0
Non-current assets	434.9	425.0	318.3	36.6	33.6	1.248.4
Addition of intangible assets and property, plant and equipment	20.0	83.1	37.8	7.2	7.9	156.0
Depreciation for the year	41.2	41.1	15.1	7.8	0.5	105.7
Assets	616.0	538.5	399.9	103.6	(19.8)	1.638.2
Equity	314.5	221.9	73.2	9.6	251.2	870.4
Liabilities	301.5	316.6	326.8	93.9	(271.0)	767.8
Non-cash adjustments	-5.3	1.0	15.3	0.0	(7.7)	3.3
Average full-time equivalent staff	319	200	696.0	162.0	8.0	1.385.0

Segment information — Group

DKKm	2005					
	UK	Germany and Denmark	Eastern Europe ***	Nordic countries	Eliminations and non-allo-cated items	Group total
Revenue, external	590.5	502.0	5.0	256.9	0.0	1,354.4
Revenue, internal	0.0	15.8	0.0	0.0	(15.8)	0.0
EBITDA	88.2	143.2	(6.4)	18.4	(14.2)	229.2
EBIT *	46.0	107.5	(7.0)	10.3	(15.2)	141.6
Profit (loss) before tax **	39.2	109.6	(7.9)	8.0	(1.1)	147.8
Non-current assets	448.0	378.4	161.0	37.7	21.6	1,046.7
Addition of intangible assets and property, plant and equipment	33.8	81.3	0.0	7.0	0.0	122.1
Depreciation for the year	42.2	35.7	0.6	8.1	1.0	87.6
Assets	583.2	561.0	263.4	158.4	(146.5)	1.419.5
Equity	258.5	198.7	50.0	54.1	266.4	827.7
Liabilities	324.8	355.6	213.4	100.6	(402.5)	591.9
Non-cash adjustments	0.4	0.5	(1.4)	2.2	(1.0)	0.7
Average full-time equivalent staff	358	167	33.0	147.0	7.0	712.0

* No goodwill impairment was charged in 2006 and 2005. EBIT is consequently identical to EBITA.
** The H+H Group's consolidated profit before tax and management fee.
*** The activities in Poland and the Czech Republic were acquired in 2005 and 2006. The activities have been recognised from the acquisition date. The sales units in the Ukraine and Slovakia were both set up in the second half of 2006.

3 **Staff costs**	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Wages and salaries	280,050	230,469	10,140	7,065
Defined benefit plans, see note 21	12,111	13,223	0	0
Defined contribution plans	8,657	6,680	0	0
Share-based payment	1,208	1,013	531	413
Remuneration to the Supervisory Board	1,700	2,250	1,700	2,250
Other staff costs	30,547	25,227	299	72
	334,273	278,862	12,670	9,800
Remuneration to the Executive Board:				
Salaries and fees	4,270	2,460	4,270	2,460
Bonus plans	826	0	826	0
Share-based payment	336	248	336	248
	5,432	2,708	5,432	2,708
Remuneration to other senior executives:				
Salaries and fees	4,660	4,296		
Bonus plans	1,032	219		
Share-based payment	580	647		
	6,272	5,162		

The Executive Board consisted of one person in 2005. The Executive Board was increased by one person on 1 February 2006. There were three senior executives, both in 2005 and 2006.

No special remuneration has been paid to the Supervisory Board for 2006. For 2005 special remuneration of DKK 150,000 was paid to Knud Erik Borup.

For further particulars about share option plans, reference is made to note 24.

Average full-time equivalent staff	1,385	712	8	7

4 **Depreciation, amortisation and impairment losses**	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Other intangible assets	1,485	1,856	0	0
Land and buildings	15,510	10,434	0	80
Plant and machinery	74,326	64,250	0	0
Fixtures and fittings, tools and equipment	14,365	11,076	500	332
	105,686	87,616	500	412

5 **Other operating income and expenses**	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Management fee	0	0	14,500	9,000
Gain on disposal of property, plant and equipment	136	641	136	166
Loss on disposal of property, plant and equipment	(65)	0	0	0
Other operating income	0	1,000	0	1,000
Adjustment of impairment loss relating to sale of Båld BV	0	3,902	0	3,902
	71	5,543	14,636	14,068

Notes

6 Financial income	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Interest income	416	1,608	59	981
Interest income from Group enterprises	0	0	12,718	11,277
Dividend from subsidiaries	0	0	35,000	20,000
Capital gain relating to early repayment	0	6,439	0	0
Exchange rate adjustments relating to loans to subsidiaries	0	2,051	0	5.800
Value adjustments	40	298	0	11
Other financial income	158	34	90	0
	614	10,430	47,867	38,069

7 Financial expenses	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Interest expense	14,472	3,721	818	68
Interest expense to Group enterprises	0	0	707	235
Exchange rate adjustments relating to loans to subsidiaries	0	0	1,340	0
Value adjustments	274	387	43	0
Other financial expenses	703	96	485	4
	15,449	4,204	3,393	307

8 Tax	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Income tax expense	39,773	47,484	14,675	2,116
Tax on changes in equity	(2,686)	(1,274)	149	116
	37,087	46,210	14,824	2,232
Which can be broken down as follows:				
Current tax for the year	40,950	36,853	0	0
Adjustment relating to change in tax rate	0	1,574	0	760
Effect of withdrawal from joint taxation	5,320	0	13,995	0
Reassessment of tax asset	(8,471)	0	0	0
Adjustments of deferred tax	1,020	7,724	1,780	1,672
Prior-year adjustments	(1,732)	59	17	(200)
	37,087	46,210	15,792	2,232
Current joint taxation contribution for the year	0	0	(968)	0
	37,087	46,210	14,824	2,232
Breakdown of tax on profit from ordinary activities:				
Calculated 28% (2005: 28%) tax on profit from ordinary activities	31,931	41,380	10,290	9,067
Adjustment of calculated tax in foreign Group				
enterprises in relation to 28% (2005: 28%)	9,456	6,592	0	0
Tax effect of:				
Change in tax rate	0	1,574	0	760
Other adjustments	(142)	808	(149)	(372)
Tax on changes in equity	(2,686)	(1,274)	149	116
Effect of withdrawal from joint taxation	5,320	0	13,995	0
Non-deductible expenses	3,821	0	0	0
Adjustment re prior-year taxes	(1,732)	16	321	311
Reassessment of tax asset	(8,471)	(480)	18	(200)
Non-taxable income	(410)	(2,406)	(9,800)	(7,450)
	37,087	46,210	14,824	2,232

The Danish companies have previously been jointly taxed with the Norwegian and Swedish companies. The joint taxation between these companies ceased with effect from 1 January 2005. Accordingly, tax assets that were previously recognised in the parent company have been reversed and recognised in the individual companies. The tax assets have been tested for impairment and as a result of this the effect of the withdrawal from the joint taxation scheme for the Group is negative with DKK 5,320 thousand.

The review of the Group's tax assets in 2006 has led to a positive adjustment of DKK 8,471 thousand. The positive adjustment relates to a specific tax asset in relation to which doubts existed as to the possibilities for its future utilisation. The tax asset in question was previously not recognised in the Group's balance sheet; however, it is judged that the criteria for utilising the tax deduction are met and the tax asset has consequently been recognised in full.

Prior-year adjustments relate primarily to Poland and reflect the fact that no tax asset of tax loss carryforwards was recognised in 2005. The reason for this was that it was expected that the loss would be lost in connection with an impending merger of the Polish companies. It has subsequently turned out that a part of the loss can be utilised, and it has consequently been recognised.

Notes

9 Intangible assets and property, plant and equipment

Parent company

DKK '000	2006			2005	
	Other intangible assets	Land and buildings	Fixtures and fittings, tools and equipment	Land and buildings	Fixtures and fittings, tools and equipment
Total cost at 1 January	0	0	1,124	23,218	2,245
Additions for the year	5,915	0	2,349	0	33
Transfers for the year	0	0	0	0	0
Disposals for the year	0	0	(349)	(23,218)	(1,154)
Total cost at 31 December	5,915	0	3,124	0	1,124
Total depreciation at 1 January	0	0	484	8,938	732
Depreciation of assets disposed of	0	0	(297)	(9,018)	(580)
Depreciation for the year	0	0	500	80	332
Total depreciation at 31 December	0	0	687	0	484
Carrying amount	5,915	0	2,437	0	640

Group

DKK '000	2006					
	Goodwill	Other intangible assets	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Prop., plant and equipm. in course of construction
Total cost at 1 January 2006	70,483	9,006	395,178	846,406	70,867	75,648
Final allocation of purchase sum relating to 2005	9,099	0	(1,549)	(3,283)	0	0
Additions on acquisition of enterprises	10,144	643	87,510	35,441	0	0
Transfers	0	0	8,342	68,741	30,642	(107,725)
Foreign exchange adjustments, year-end rate	353	18	3,111	10,927	372	908
Additions for the year	0	10,820	19,933	26,054	25,726	73,512
Disposals for the year	0	(255)	0	(2,354)	(4,203)	0
Total cost at 31 December 2006	90,079	20,232	512,525	981,932	123,404	42,343
Total depreciation at 1 January 2006	0	6,026	62,922	338,529	31,977	0
Transfers	0	0	0	0	0	0
Foreign exchange adjustments, year-end rate	0	(7)	882	4,524	233	0
Changes in foreign exchange rates	0	11	142	691	63	0
Depreciation of assets disposed of	0	(255)	0	(1,765)	(2,626)	0
Depreciation for the year	0	1,485	15,510	74,326	14,365	0
Total depreciation at 31 December 2006	0	7,260	79,456	416,305	44,012	0
Carrying amount	90,079	12,972	433,069	565,627	79,392	42,343
Of which assets held under finance leases				5,277		

9 Intangible assets and property, plant and equipment – continued — **Group**

DKK '000	2005					
	Goodwill	Other intangible assets	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Prop., plant and equipm. in course of construction
Total cost at 1 January 2005	28,194	0	323,100	714,959	62,883	62,217
Additions on acquisition of enterprises	41,637	1,133	64,899	48,198	0	0
Transfers	0	7,476	5,343	20,775	(7,404)	(26,190)
Foreign exchange adjustments, year-end rate	652	0	6,034	20,776	487	1,898
Additions for the year	0	397	19,534	44,514	19,391	38,281
Disposals for the year	0	0	(23,732)	(2,816)	(4,490)	(558)
Total cost at 31 December 2005	70,483	9,006	395,178	846,406	70,867	75,648
Total depreciation at 1 January 2005	0	0	60,494	268,866	27,595	0
Transfers	0	4,151	0	0	(4,151)	0
Foreign exchange adjustments, year-end rate	0	17	1,479	8,012	313	0
Changes in foreign exchange rates	0	2	(2)	(39)	1	0
Depreciation of assets disposed of	0	0	(9,483)	(2,560)	(2,857)	0
Depreciation for the year	0	1,856	10,434	64,250	11,076	0
Total depreciation at 31 December 2005	0	6,026	62,922	338,529	31,977	0
Carrying amount	70,483	2,980	332,256	507,877	38,890	75,648
Of which assets held under finance leases				132		

The carrying amount of capitalised interest at 31 December 2006 was DKK 9,746 thousand (31 December 2005: DKK 10,416 thousand).
No interest has been capitalised for 2006 and 2005.
No research and development costs have been capitalised in 2005 or 2006.
Binding contracts totalling DKK 7,915 thousand for the supply of fixtures and fittings, tools and equipment have been entered into for 2006 (2005: DKK 49,239 thousand).

On 31 December 2006 management tested the carrying amount of goodwill for impairment, based on the allocation of the cost of goodwill among the cash-generating units.
Of the total goodwill of DKK 90,079 thousand (2005: DKK 70,483 thousand), DKK 61,827 thousand (2005: DKK 42,217 thousand) related to the Eastern Europe segment, while DKK 28,252 thousand (2005: DKK 28,266 thousand) related to the Germany-Denmark segment.
Some fixed assets in Poland have been provided as security for bank loans. The security provided amounts to DKK 5,523 thousand, and the carrying amount of the asset is DKK 20,429 thousand.

Impairment test, Eastern Europe
The activities in Poland and the Czech Republic were acquired in 2005 and 2006. As a result of integration and start-up costs, these activities generated an operating loss. However, the new activities developed in accordance with expectations and this segment is expected to deliver operating profit from 2008.

The contribution margin for the budget period has been estimated on the basis of the expected pricing in the markets. It has been assumed that the existing market shares will, as a minimum, be held.

The recoverable amount of goodwill attributable to the Polish and Czech activities is based on the value in use, which has been determined using expected net cash flows based on an investment case with estimates for the years 2007-2011 and a discount rate before tax of just under 8%. The weighted average growth rate used for extrapolating expected future net cash flows for the years after 2011 has been estimated at 2%. It is estimated that the growth rate will not exceed the long-term average growth rate in the company's markets.
Based on these assumptions, management is of the opinion that the carrying amount of goodwill will exceed its recoverable amount.

Impairment test, Germany-Denmark
The segment Germany and Denmark recorded operating profit in the region of DKK 100,000 thousand both in 2006 and in 2005.
The contribution margin for the budgeting period has been estimated on the basis of the expected pricing in the markets. In addition, the expected market share has been estimated to be on a par with that achieved in 2005 and 2006.
The recoverable amount of goodwill attributable to the activities is based on the value in use, which has been determined using estimated net cash flows based on an investment case with estimates for the years 2007-2011 and a discount rate before tax of 6.2%. The weighted average growth rate used for extrapolating expected future net cash flows for the years after 2011 has been estimated at 2%. The growth estimated is not expected to exceed the long-term average growth rate in the company's markets.
Based on the assumptions set out above, management is of the opinion that the carrying amount of goodwill will exceed its recoverable amount.

Notes

10 Acquisitions

DKK '000	2006		2005	
Poland	Fair value at acquisition date	Carrying amount before the acquisition date	Fair value at acquisition date	Carrying amount before the acquisition date
Intangible assets	643	8	1,133	360
Property, plant and equipment	102,091	21,708	113,097	60,154
Other non-current assets	1,521	1,668	5,664	5,664
Inventories	4,919	6,741	7,161	7,510
Receivables	5,983	6,296	5,330	8,305
Cash and cash equivalents	1,651	1,651	830	830
Deferred tax	(15,375)	(10)	(10,216)	2,044
Bank loans	(6,962)	(6,962)	(3,265)	(3,206)
Trade payables	(6,593)	(6,981)	(15,033)	(15,033)
Other provisions	(11,759)	(9,904)	(1,712)	(883)
Other payables	(14,806)	(12,874)	(1,812)	(1,018)
Net assets acquired	61,313	1,341	101,177	64,727
Attributable to minority interest	(6,176)		(221)	
H+H's share of net assets acquired	55,137		100,956	
Goodwill	2,845		41,637	
Cost	57,982		142,593	
Of which cash and cash equivalents	(1,651)		(830)	
Purchase consideration in cash	56,331		141,763	

DKK '000	2006
Acquisition of the share attributable to minority interest	Fair value at acquisition date
Attributable to minority interest	5,785
Goodwill	4,915
Purchase consideration in cash	10,700

On 3 January 2006 H+H Group acquired the controlling interest in the company PPH Faelbet S.A. via a subsidiary in Poland. PPH Faelbet S.A. owned 78.18% of the company Prefabet-Pulawy Sp. z o.o. at the date of acquisition, thereby controlling the two factories, both of which manufacture aircrete. These factories were acquired in continuation of the acquisition of three factories in 2005. The five factories were integrated at the end of 2006 so that there are now two legal entities.

All of the minority shareholders in the company Prefabet-Pulawy Sp. z o.o. have subsequently been bought out. The purchase price totals DKK 67,031 thousand for 100% of the shares in Prefabet-Pulawy Sp. z o.o.

As a result of the full integration of the five factories acquired it is no longer possible to separate the individual entities.
The goodwill amount is attributable to the value of the market access and the synergies from the H+H Group's existing operations.

The main adjustments to the carrying amount prior to the acquisition of the two factories relate to lease rights in respect of plots of land, buildings, machinery and equipment. External valuers have assisted in determining the fair value of the assets referred to above. No specific intangible assets justifying individual valuation have been identified.

10 Acquisitions – continued

DKK '000

Final allocation of purchase sum relating to factories acquired at the end of 2005

The preliminary allocation of the purchase sum carried out on acquisition of the three Polish factories at the end of 2005 has now been completed. Subsequent to the acquisition, it was found that parts of the plant at one of the factories were in a significantly poorer condition than assumed on initial recognition in 2005. In addition, assets that H+H had planned to sell at the time of the acquisition proved to be unsaleable. It has also been found that deferred tax assets acquired that were not recognised in the preliminary allocation can be utilised.

As a result of the final allocation, the fair value of the plant and machinery at the acquisition date has been reduced by DKK 4,832 thousand, the fair value of current assets has been reduced by DKK 6,409 thousand and the deferred tax liability has been reduced by DKK 2,142 thousand, overall. Goodwill at the acquisition date has consequently been increased by DKK 9,099 thousand.

DKK '000	**2006**	
Czech Republic	Fair value at acquisition date	Carrying amount before the acquisition date
Land and buildings	16,006	5,066
Plant and machinery	4,854	2,676
Inventories	1,939	1,763
Acquired net assets	22,799	9,505
Goodwill	2,384	
Cost	25,183	
Of which cash and cash equivalents	0	
Purchase consideration in cash	25,183	

On 2 May 2006 the H+H Group acquired an aircrete factory in the Czech Republic. The purchase sum totalled DKK 25,183 thousand. The goodwill amount, which has been estimated at DKK 2,384 thousand, relates to the value of market access and the synergies from the H+H Group's existing operations.

The main adjustments to the carrying amount prior to the acquisition relate to the factory buildings and plant and machinery. The fair values of the assets in question have been determined by the local management based on the market values of comparable assets. No specific intangible assets justifying individual valuation have been identified.

Notes

11 Investments in subsidiaries

Parent company

DKK '000	2006	2005
Cost at 1 January	1,176,969	1,117,987
Additions to cost	56,211	58,982
Cost at 31 December	1,233,180	1,176,969

		2006	2005
	Registered office	Equity interest %	Equity interest %
H+H UK Holding Limited *	UK	100%	100%
H+H Deutschland GmbH	Germany	100%	100%
H+H Danmark A/S	Denmark	100%	100%
H+H Finland Oy	Finland	100%	100%
H+H Sverige AB	Sweden	100%	100%
H+H Norge AS	Norway	100%	100%
H+H Polska Sp. z o.o. **	Poland	100%	100%
H+H Ceská Republika s.r.o.	Czech Republic	100%	-
Kway Holdings Ltd. ***	UK	100%	100%
HH Aps af 15. april 2004	Denmark	100%	100%
HHI A/S af 3. maj 2004	Denmark	100%	100%
H+H Slovenská republika s.r.o.	Slovakia	100%	-
H+H Ukraine TOV	Ukraine	100%	-
Dagmar LLC.	Russia	100%	-

* The activity consists of ownership of H+H UK Limited.
** H+H Polska Sp. z o.o. holds 99.94% of the shares in Prefabet S.A.
*** Indirectly owned companies without any activity are not included in the list above.

The cost figures were impairment tested in connection with the closing of the financial statements for 2005 and 2006. This has not given rise to any write-downs ro impairment of these equity investments.

12 Treasury shares

Group and parent company

	Number of shares	Nominal value of shares DKK '000	% share of year-end share capital
Holding at 1 January 2005	33,407	3,340	2.9%
Sold during the year	(14,040)	(1,404)	-1.2%
Holding at 31 December 2005	19,367	1,936	1.7%
Purchased during the year	2,500	250	0.2%
Sold during the year	(11,547)	(1,154)	-1.0%
Holding at 31 December 2006	10,320	1,032	0.9%

The selling price for the shares sold in 2006 totalled DKK 6,112 thousand (2005: DKK 9,020 thousand).
The total purchase price for the shares acquired in 2006 was DKK 3,488 thousand (2005: DKK 0)

Treasury shares are acquired in order to hedge liabilities related to the company's option plans. At 31 December 2006 a total of 10,120 shares must be available in connection with the company's option plans (2005: 20,758 shares). Reference is made to note 24.

13 Inventories	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Raw materials and consumables	40,164	39,529	0	0
Finished goods and goods for resale	132,285	101,642	0	0
	172,449	141,171	0	0
Value of inventories recognised at net realisable value	14,747	9,633	0	0
Cost of sales	734,443	545,320	0	0
Impairment charge for the year	5,114	1,357	0	0
	739,557	546,677	0	0

14 Trade receivables	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Impairment loss relating to receivables, year-end	7,714	5,509	0	0

15 Deferred tax, asset	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Deferred tax asset at 1 January	18,369	25,934	8,060	11,340
Foreign exchange adjustments	(181)	5	0	0
Change in deferred tax	(3,150)	(7,570)	(605)	(2,232)
Effect of withdrawal from joint taxation	1,220	0	(7,455)	0
Reassessment of tax asset	8,471	0	0	0
Utilised by companies within the joint taxation scheme	0	0	0	(1,048)
Deferred tax asset at 31 December	24,729	18,369	0	8,060
Deferred tax asset relates to:				
Non-current assets	4,558	6,403	0	605
Current assets	689	447	0	0
Liabilities	308	0	0	0
Tax loss carryforwards	19,174	11,519	0	7,455
	24,729	18,369	0	8,060

Notes

16 Deferred tax, liability	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Deferred tax liability at 1 January	51,367	37,934	0	0
Adjustment of allocation of purchase price	(2,142)	0	0	0
Additions on acquisition of enterprise	15,375	10,216	0	0
Foreign exchange adjustments	834	1,489	0	0
Effect of withdrawal from joint taxation	6,540	0	6,540	0
Prior-year adjustments	(1,499)	0	0	0
Change in deferred tax	(2,130)	1,728	1,175	0
Deferred tax liability at 31 December	(68,345)	51,367	7,715	0
Provisions for deferred tax relate to:				
Non-current assets	62,322	50,624	1,455	0
Current assets	(701)	(660)	(280)	0
Liabilities	184	1,403	0	0
Retaxation balance relating to discontinued joint taxation	6,540	0	6,540	0
	68,345	51,367	7,715	0

Temporary differences relating to equity investments have not been recognised, as the Group and the parent company, respectively, are able to check whether the liability crystallises and as the liability is unlikely to crystallise within the foreseeable future.

17 Other provisions

DKK '000	Group 2006	2005	2006	2005
	Non-current portion		Current portion	
Warranty obligations at 1 January	7,469	6,376	0	0
Provisions for the year	2,234	1,093	0	0
Utilised during the year	(825)	0	0	0
Reversal during the year	(718)	0	0	0
Warranty obligations at 31 December	8,160	7,469	0	0
Rental obligations 1 January	5,230	5,060	0	0
Transfer to current portion	(5,230)	0	5,230	0
Provisions for the year	0	170	69	0
Utilised during the year	0	0	0	0
Reversal during the year	0	0	0	0
Rental obligations at 31 December	0	5,230	5,299	0
Obligation relating to restoration of sites at 1 January	4,676	117	0	1,000
Additions on acquisition of enterprise	0	1,712	0	0
Provisions for the year	519	2,964	0	0
Utilised during the year	0	(117)	0	0
Reversal during the year	0	0	0	(1,000)
Obligation relating to restoration of sites at 31 December	5,195	4,676	0	0
Total other provisions	13,355	17,375	5,299	0

Parent company
The parent company has not recognised any provisions at the end of 2005 or 2006. In 2005, a DKK 1,000 thousand provision was reversed due to the disposal of sites and buildings.

Group
The H+H Group'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.

Warranty obligations have been determined separately for each company based on normal practice in the market in question and historical warranty costs. Warranty obligations at 31.12.2006 relate predominantly to Germany and Poland.

Rental obligations relate to expenses for restoration of discontinued leases in the UK.

The obligation in respect of reinstatement of sites relates to the company's sites in Finland and Poland. The obligation has been determined on the basis of external assessments of the reinstatement costs. Reinstatement is expected to take place within one to five years. The obligations in Denmark were reversed in 2005 due to the disposal of property.

Notes

18 Contingent liabilities	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Concluded contracts in respect of which				
guarantee insurance has been taken out	1,291	1,756	0	0
Financial guarantee	0	0	291,930	0
	1,291	1,756	291,930	0

In connection with the contracting activities previously undertaken by the Group, the Group still has warranty obligations on a few projects in respect of which guarantee insurance has been taken out. The warranty obligations are expected to be clarified within five years and the company is not expected to incur any costs in this connection. Consequently, no provisions have been made in respect of warranty obligations.

As part of the financing of the subsidiary H+H Polska Sp. z o.o., the parent company has provided a normal guarantee to the company's bankers. The guarantee comprises a non-committed credit facility of PLN 150,000 thousand. The draw-down on this credit facility was PLN 98,358 thousand at the balance sheet date.

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 at 31 December 2006.

Taxes and duties
The Group's Danish companies are jointly and severally liable for tax on the Group's jointly taxed income for financial years up to and including 2004 and for joint registration of VAT.

19 Auditors' remuneration	Group		Parent company	
DKK '000	**2006**	**2005**	**2006**	**2005**
Fees for statutory audit:				
KPMG	2,194	1,931	450	400
Kresten Foged	150	297	150	297
	2,344	2,228	600	697
Non-audit fees:				
KPMG				
Other accounting services	36	200	0	25
Tax assistance	1,108	400	50	100
Other services	1,186	2,214	455	212
	2,330	2,814	505	337

20 Earnings per share (EPS)/Diluted earnings per share (EPS-D)

	Group	
DKK '000	**2006**	**2005**
Average number of shares	1,160,000	1,160,000
Average number of treasury shares	(12,128)	(22,988)
Average number of outstanding shares	1,147,872	1,137,012
Dilution from share options	1,482	9,508
Average number of outstanding shares, diluted	1,149,354	1,146,520
Profit for the year	74,266	100,303
Attributable to minority interest	364	18
Equity holders of H+H International A/S	74,630	100,321
Earnings per share of nominally DKK 100 (EPS)	65,02	88,22
Diluted earnings per share of nominally DKK 100 (EPS-D)	64,93	87,49

Of the total calculated number of options entitling the holder to buy one share of nominally DKK 100 under the H+H Group's option plans, there were 13,937 options in 2006 (2005: 27,980 options) that had an exercise price exceeding the average market price for the years in question and are therefore not included in the calculation of diluted earnings per share.

21 Pension liabilities

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

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

Danish companies' pension obligations are insured. Some foreign companies' pension obligations are also insured. Foreign companies that are not insured or only insured in part (defined benefit plans) calculate their 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 94,322 thousand (2005: DKK 91,682 thousand) has been recognised under liabilities in respect of the Group's liabilities to existing and former employees after deduction of the assets associated with the plans.

In the consolidated income statement an amount of DKK 8,657 thousand (2005: DKK 6,680 thousand) has been recognised as costs relating to insured (defined contribution) plans. In the case of non-insured (defined benefit) plans an amount of DKK 12,111 thousand (2005: DKK 13,223 thousand) has been recognised as costs in the consolidated income statement.

The Group has defined benefit plans in the UK and Germany. The UK pension plans are managed by a pension fund to which payments are made, whereas the German pension plans are unfunded.

Notes

21 Pension liabilities – continued	Group	
DKK '000	**2006**	**2005**
Pension and similar obligations:		
Present value of defined benefit plans	490,164	458,452
Fair value of plan assets	364,928	337,035
Deficit	125,236	121,417
Unrecognised actuarial losses (gains)	38,240	37,112
Present value of unfunded defined benefit plans	7,326	7,377
Net obligation recognised in balance sheet	94,322	91,682
Development in present value of defined benefit obligation:		
Obligation at 1 January	458,452	365,796
Foreign exchange adjustments	9,470	13,378
Pension costs relating to the current financial year	8,719	9,131
Calculated interest on obligation	23,292	22,218
Actuarial gains (losses)	44	57,903
Pensions paid	(9,813)	(9,974)
Obligation at 31 December	490,164	458,452

No curtailments or settlements occurred in 2005 or 2006. No pension costs relating to prior years were recognised. H+H did not have any pension obligations in respect of acquired companies in the years in question.

Development in fair value of pension plans:		
Pension assets at 1 January	337,035	279,494
Foreign exchange adjustments	7,029	10,344
Expected return on plan assets	19,900	18,126
Actuarual gains(losses)	(339)	26,408
The company's contributions to plan assets	11,116	12,637
Pensions paid	(9,813)	(9,974)
Pension assets at 31 December	364,928	337,035
Pension costs recognised in the income statement:		
Pension costs relating to the current financial year	8,719	9,131
Calculated interest on obligation	23,292	22,218
Expected return on plan assets	(19,900)	(18,126)
Total amount recognised in respect of defined benefit plans	12,111	13,223
Total amount recognised in respect of defined contribution plans	8,657	6,680
Total amount recognised in the income statement	20,768	19,903

The cost has been recognised in the income statement under staff costs.

No accumulated actuarial gains/losses have been recognised in the income statement since 1 January 2005.

21 Pension liabilities – continued

DKK '000	Group 2006	2005
Pension assets can be broken down as follows:		
Shares	151,330	141,405
Bonds	211,277	190,535
Cash	2,321	5,095
Total	364,928	337,035
Return on plan assets:		
Actual return on plan assets	19,791	18,344
Expected return on plan assets	19,900	18,126
Actuarial gain(loss) on plan assets	(109)	218
The Group expects to contribute DKK 11,176 thousand to the defined benefit pension plan in 2007.		
The average assumptions for the actuarial calculations at the balance sheet date are as follows:		
Discount rate (avg)	5,20%	5,00%
Expected return on plan assets	6,23%	5,83%
Future rate of salary increase	4,60%	4,25%
The expected return on plan assets has been determined by an external valuer on the basis of the composition of the assets and the general economic outlook.		
The amounts for the current year and the previous year for the Group's pension obligations are as follows:		
Actuarially determined pension obligations	490,164	458,452
Pension assets	364,928	337,035
Present value of unfunded defined benefit plans	7,326	7,377
Surplus/(deficit)	(132,562)	(128,794)
Empirical changes to obligations	(109)	(1,779)
Empirical changes to pension assets	(109)	218

Notes

22 Related parties

Group

The Group's related parties are the Executive Board and the Supervisory Board of H+H International A/S as well as Henriksen og Henriksen I/S because of their significant shareholding in the parent company.

Apart from contracts of service, no agreements or transactions have been entered into between the company, the Executive Board and the Supervisory Board. Remuneration to the Supervisory Board and the Executive Board is disclosed in notes 3 and 24.

Apart from dividend distribution, no agreements or transactions have been entered into between Henriksen og Henriksen I/S and the Group.

Parent company

In addition to the parties referred to above, the parent company's related parties are its subsidiaries, cf. note 11.

A management fee totalling DKK 14,500 thousand has been settled between the parent company and the other members of the Group (2005: DKK 9,000 thousand).

Besides the transactions referred to above, the transactions between the parent company and its subsidiaries include borrowing, lending and interest as disclosed in the parent company's balance sheet and notes 6 and 7.

Henrik Lind – member of the Supervisory Board – is a partner in the law firm Gorrissen Federspiel Kierkegaard, which was paid fees totalling DKK 84 thousand in 2006 for legal assistance (2005:DKK 164 thousand).

Intragroup trading is on arm's length terms.

23 Lease commitments

Group						
DKK '000	2006			2005		
Finance leases	Lease payment	Interest	Carrying amount	Lease payment	Interest	Carrying amount
Not later than 1 year	1,177	67	1,110	275	16	259
Later than 1 year and not later than 5 years	2,485	468	2,017	181	17	164
Later than 5 years	0	0	0	0	0	0
	3,662	535	3,127	456	33	423

The parent company has not entered into any finance leases for 2006 and 2005.

The H+H Group leases property and capital equipment under finance leases. The lease term is typically between 2 and 5 years, with an option to purchase the asset in question at a favourable price on expiry of the lease term.

Group		
DKK '000	2006	2005
Operating leases	Lease payments	Lease payments
Not later than 1 year	894	1,616
Later than 1 year and not later than 5 years	3,827	4,909
Later than 5 years	1,460	1,431
Total minimum lease payment	6,181	7,956

The Group leases property, capital equipment and vehicles under operating leases. An amount of DKK 6,260 thousand (2005: DKK 8,030 thousand) has been recognised in the consolidated income statement in respect of operating leases.

24 Incentive schemes

In July 2004, the Supervisory Board of H+H International A/S laid down new guidelines governing share option grants in the years 2004-2007. Options will be granted to senior executives in the H+H Group nominated by the Supervisory Board as being eligible for options. The Supervisory Board of H+H International A/S is not comprised by the company's share option plans.

The share option plan expired with vesting for 2006. The Supervisory Board has decided to extend the share option plan with vesting for 2007 and a limited number of years thereafter. The final terms for the extended share option plan will be clarified in the course of 2007.

At the end of 2006, six employees were eligible for options. Share options will be granted in March in each of the years in connection with the publication of the preliminary announcement of financial statements/the annual report. At the end of 2006, the overall option programme totalled 10,120 shares with exercise windows in the periods 2007-2009, 2008-2010 and 2009-2011. Options are granted to a number of shares with a current market price equivalent to an amount not exceeding the option holder's fixed annual salary at the end of the previous financial year. Half of the grant is not tied to the company's financial performance, whereas the other half is tied, wholly or partly, to the achievement of various financial performance goals in the previous year. In 2005, 75% of the full portion was granted, whereas, for 2006, 50% of the full portion has been granted. The current market price of the number of shares comprised by an option grant is calculated on the basis of the average price on ten business days after the publication of the announcement of financial results at the grant date, and this average price also constitutes the exercise price for the share options. The options are exercisable in a two-year period, 3-5 years after grant. The right to exercise share options is conditional upon the employee not having given notice of termination before the exercise date.

At the start of 2006, the number of options allocated under the old guidelines stood at 14,036 shares with exercise windows in the period 2006-2009. After the issue of the financial statements in March 2006, the option holders exercised their right to buy all 14,036 shares at an average exercise price of DKK 675 per share of nominally DKK 100. The average market price for the options exercised in 2006 was DKK 1,391 per share of nominally DKK 100.

At the end of 2005 and 2006, there were no outstanding exercisable options.

In 2006, a total of 3,398 shares at an average price of DKK 1,388 per share of nominally DKK 100 were allocated. The fair value at the grant date of allocations in 2006 amounted to DKK 0.7m for employees and DKK 0.5m for the Executive Board. The fair values were calculated using the Black-Scholes model at the grant date and are recognised as staff costs over the vesting period. The main assumptions for the calculation of fair values using the Black-Scholes model are a share price and an exercise price of DKK 1,550 per share of nominally DKK 100, a volatility of 40%, an interest rate of 3.5%, a dividend rate of 3%, and average exercise three years after the grant date. The volatility has been fixed on the basis of an expected future level, based on the historical volatility.

No options expired in 2006. Options for acquisition of 1,213 shares under the new share option guidelines and options for acquisition of 2,553 shares under the old guidelines expired in 2005. In 2005, the options expired due to the employees in question having given notice of termination.

The share option plans are partially covered by treasury shares. Treasury shares amounted to 19,367 nos. at the start of 2006 and 10,320 nos. at the end of 2006.

Notes

24 Incentive schemes – continued

DKK '000	Total		Executive Board		Other employees	
Outstanding options	Number	Average exercise price	Number	Average exercise price	Number	Average exercise price
Outstanding options 1 January 2005	35,943	722.00	-	-	35,943	722.00
Granted in 2005	4,987	1,430.00	950	1,430.00	4,037	1,430.00
Exercised in 2005	(16,406)	642.48	-	-	(16,406)	642.48
Expired in 2005	(3,766)	918.06	-	-	(3,766)	918.06
Outstanding options 31 December 2005	20,758	919.37	950	1,430.00	19,808	894.88
Granted in 2006	3,398	1,388.00	1,386	1,388.00	2,012	1,388.00
Exercised in 2006	(14,036)	674.82	-	-	(14,036)	674.82
Transferred	-	1,430.00	676	1,430.00	(676)	1,430.00
Outstanding options 31 December 2006	10,120	1,415.90	3,012	1,410.67	7,108	1,418.12
Breakdown of outstanding options by exercise period:						
Outstanding options 31 December 2005						
2006-2009	14,036	674.82	-	-	14,036	675.00
2007-2009	2,323	1,430.00	-	-	2,323	1,430.00
2008-2010	4,399	1,430.00	950	1,430.00	3,449	1,430.00
Total	20,758	919.37	950	1,430.00	19,808	895.00
Outstanding options 31 December 2006						
2007-2009	2,323	1,430.00	-	-	2,323	1,430.00
2008-2010	4,399	1,430.00	1,626	1,430.00	2,773	1,430.00
2009-2011	3,398	1,388.00	1,386	1,388.00	2,012	1,388.00
Total	10,120	1,415.90	3,012	1,410.67	7,108	1,418.12

25 Hedging transactions and risk management

In mid-December 2006 the purchase of gas supplies in the UK was fixed for the period January to September 2007. At 31 December 2006 a fair value adjustment of the hedging transaction was made. The net value of the fair value adjustment has reduced equity by DKK (1,862) thousand. There were no further hedging transactions at the end of 2005 or 2006.

Reference is made to the sections on risk management and policies on pages 16-17 in managements review.

26 Major shareholders and types of shareholders — Parent company

The following shareholders hold more than 5% of the share capital or at least 5% of the voting rights in H+H International A/S at 1 February 2007:

Major shareholders	Nominal capital	% of total	Votes	% of total
Share capital:				
A shares	24,000,000		24,000,000	
B shares (treasury shares have been deducted under votes)	92,000,000		9,096,800	
Total	116,000,000		33,096,800	
Henriksen og Henriksen I/S				
c/o Oluf Engell, Lawyer, Copenhagen				
A shares	24,000,000	20.69	24,000,000	72.51
Danish Labour Market Supplementary Pension Fund (ATP) and				
ATP Invest, Hillerød				
B shares	15,532,600	13.39	1,553,260	4.68
LD Pensions and				
Fåmandsforeningen LD, Copenhagen				
B shares	8,930,900	7.70	893,090	2.69
Holdingselskabet af 9/11 2001 ApS, Copenhagen				
B shares	7,902,000	6.81	790,200	2.38

The calculation of ownership interest and voting rights covers both A shares and B shares, whereas the company's holding of treasury shares is excluded from the calculation of the share of voting rights. Shareholdings through controlling companies feature in the calculation of a major shareholder's holding, whereas ownership of a partnership interest in the A shareholder, Henriksen og Henriksen I/S, is not included in the holding.

Parent company

Types of shareholders	Nominal capital	% of total	Votes	% of total
Henriksen og Henriksen I/S	24,000,000	20.69	24,000,000	72.29
Supervisory Board and Executive Board	8,765,500	7.56	876,550	2.64
LD and ATP	24,463,500	21.09	2,446,350	7.37
Foreign investors	1,597,300	1.38	159,730	0.48
H+H International A/S	1,032,000	0.89	103,200	0.31
Other registered shareholders	30,601,100	26.38	3,060,110	9.22
Unregistered shareholders	25,540,600	22.01	2,554,060	7.69
Total	116,000,000	100.00	33,200,000	100.00

27 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 Group's financial standing.

Notes

28 New accounting standards

The IASB has issued the following new IFRS standards that are not compulsory for H+H in connection with the preparation of the annual report for 2006. Unless otherwise stated, they have also been adopted by the EU:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1: Presentation of Financial Statements: Capital Disclosures applies to financial years commencing on or after 1 January 2007. The standard will not have any impact on recognition and measurement in the annual report.

- IFRS 8 Operating Segments on segment disclosures applies to financial years commencing on or after 1 January 2009. The standard will not have any impact on recognition and measurement in the annual report. IFRS 8 has yet to be adopted by the EU.

In addition, the IASB has issued the following new interpretations (IFRIC) that are not mandatory for H+H in connection with the preparation of the annual report for 2006. Unless otherwise stated, they have also been adopted by the EU:

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies becomes effective for financial years commencing on or after 1 March 2007. The H+H Group does not currently have any foreign entities in hyperinflationary economies.

- IFRIC 8 Scope of IFRS 2 becomes effective for financial years commencing on or after 1 May 2007. The H+H Group recognises all share-based payment arrangements in accordance with IFRS 2 and does not expect IFRIC 8 to have any impact on the financial statements.

- IFRIC 9 Reassessment of Embedded Derivatives became effective for financial years commencing on or after 1 June 2006. The H+H Group does not hold and does not expect to acquire any embedded derivatives. IFRIC 9 is consequently not expected to have any impact on the financial statements.

- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal in the annual report of an impairment loss recognised in a previous interim period in respect of goodwill, even though the circumstances that led to the recognition of the impairment loss in the interim period no longer apply. IFRIC 10 became effective for financial years commencing on or after 1 November 2006 and is not expected to have any impact on the financial statements. IFRIC 10 has yet to be adopted by the EU.

- IFRIC 11 IFRS 2: Group and Treasury Share Transactions becomes effective for financial years commencing on or after 1 March 2007. H+H International A/S already accounts for Group transactions relating to share-based payment arrangements in accordance with the principles set out in IFRIC 11. IFRIC 11 has yet to be adopted by the EU.

- IFRIC 12 Service Concession Arrangements becomes effective for financial years commencing on or after 1 January 2008. The H+H Group does not hold and does not expect to acquire any concessions. IFRIC 12 is consequently not expected to have any impact on the financial statements. IFRIC 12 has yet to be adopted by the EU.

The H+H Group expects to implement these IFRSs and IFRICs from the mandatory effective dates.

29 Management's estimates and judgements

Estimation uncertainty

Determining the carrying amounts of some assets and liabilities requires estimation of the effects of future events on the carrying amounts of those assets and liabilities at the balance sheet date. Estimates that have a significant effect on the financial reporting are made in connection with, for example, the determination of depreciation, amortisation and impairment losses, pensions and similar liabilities, provisions and contingent liabilities.

The estimates applied are based on assumptions which are sound, in management's opinion, but which are naturally uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unforeseen events or circumstances may occur. Moreover, the company is subject to risks and uncertainties that may lead to the actual results differing from these estimates.

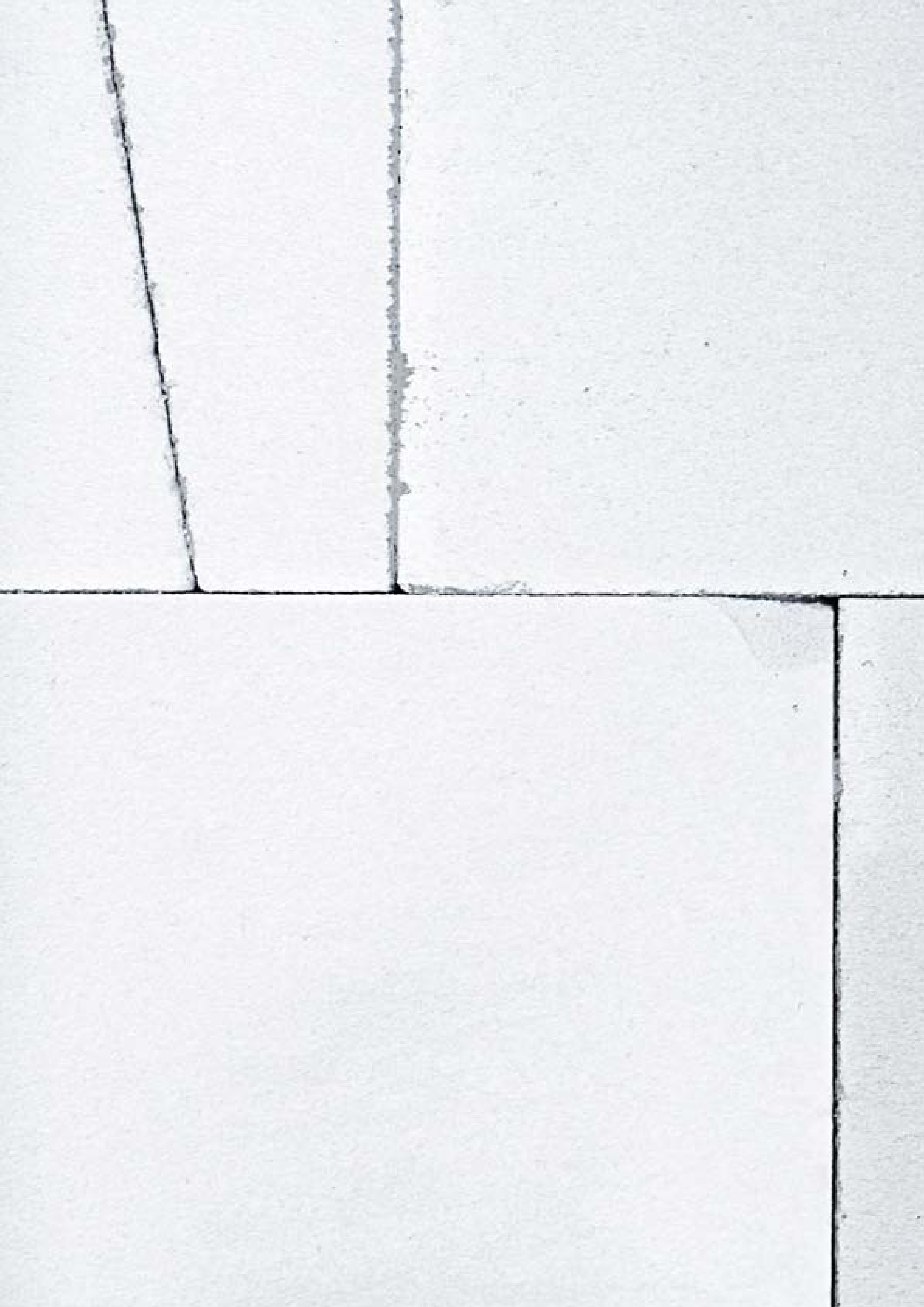
In the case of H+H International A/S significant changes in estimates and assumptions on which the calculations of the carrying amounts are based may have a material effect on the measurement of intangible assets, including goodwill. The valuation of goodwill is described in note 9.

Special risks for the H+H Group are disclosed on pages 16-17.

Accounting policies

As part of the application of the Group's accounting policies, management makes judgements, in addition to estimations, that may have a significant effect on the amounts recognised in the annual report.

These judgments include allocation of the purchase price on acquisition of enterprises. A breakdown of the allocation of the purchase price in connection with the acquisition of the Polish and Czech activities is given in note 10.



Strategy status

GROWTH IS THE WAY FORWARD

H+H has a clear growth strategy:

- organic growth of H+H's existing geographical markets by continued implementation and development of H+H's value proposition, Build with ease;
- geographical growth by acquisition or establishment of aircrete factories and sales offices in new markets.

BUILD WITH EASE

H+H's value proposition, Build with ease, will generate growth in all H+H's existing markets. With this strategy H+H is focusing on optimisation of the entire value chain - from factory through logistics to the installed product. H+H's focus for the future is development and sale of intelligent, industrialised aircrete solutions.

quality aircrete

is the foundation of our company

H+H manufactures top-quality products, and production is planned so that it is efficient and environmentally friendly.

H+H's consistent, high quality is achieved by ongoing investment in new technology. The new factory in Wittenborn, Germany, which began production in autumn 2006, is an example of H+H's dedication to modern and efficient quality production. The product range at the new factory in Wittenborn underpins the increased demand for industrialised building components for modular construction.

H+H will continue investing in upgrading of equipment at its factories to ensure that H+H is always providing the best quality available in the market. The factories for which precise equipment upgrading plans have been prepared include factories acquired in Poland and the Czech Republic.

trusted partner

is our reputation in the industry

H+H interacts with its customers and is perceived as a reliable partner who, with its integrity and professionalism, is instrumental in making its customers' building process more efficient.

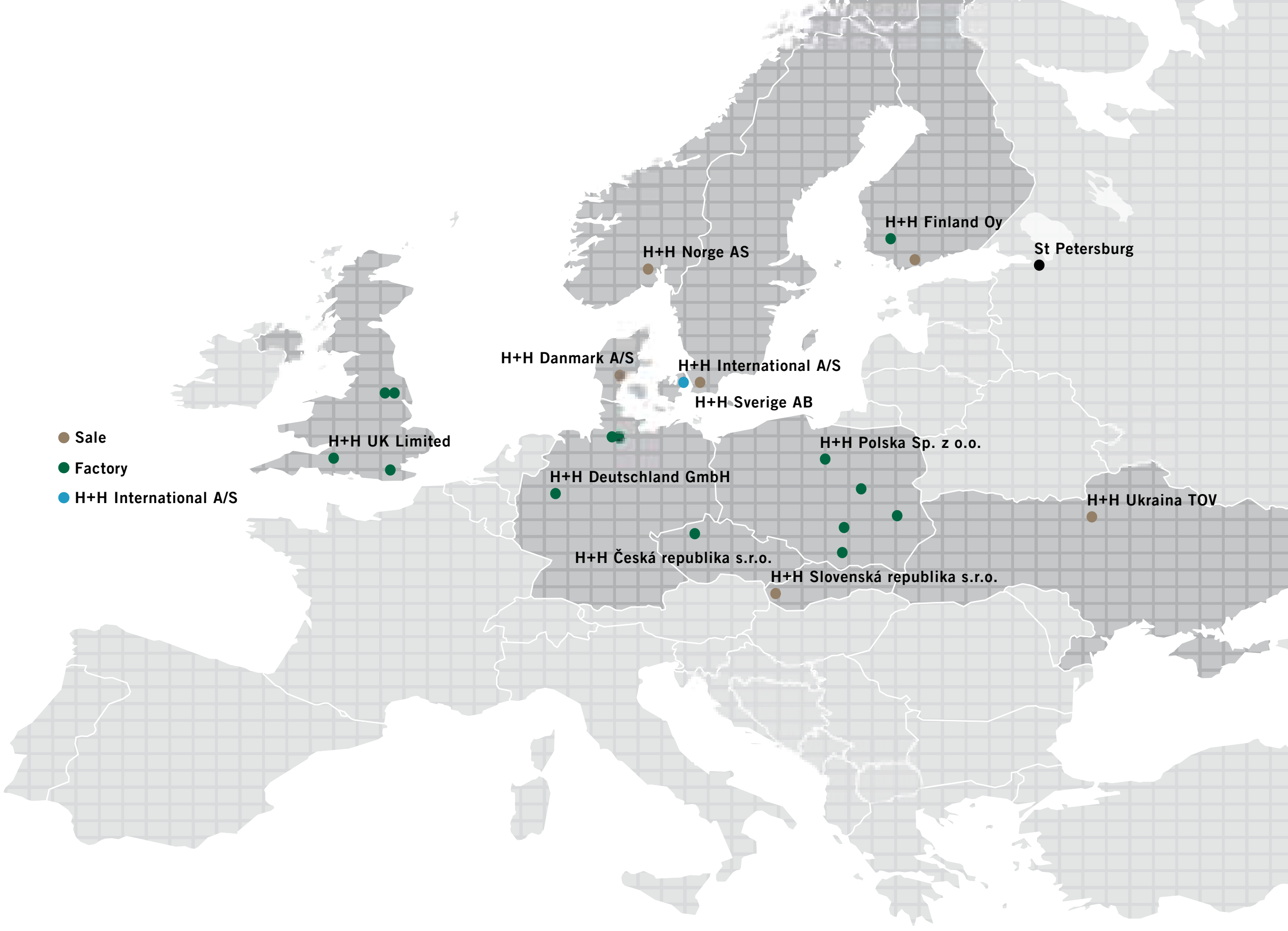
H+H's sales office staff have construction industry experience, and H+H's sales offices also have a back-office function with staff with a building technology background, who provide advice on the use of H+H products and systems.

H+H is expanding and training its network of craftsmen who specialise in the installation of H+H's products and building systems. This will give H+H's customers access to qualified installers who, with their aircrete experience, can ensure fast and correct installation of H+H's building systems.

innovative solutions

are how we create results

H+H is a leader in the development of innovative aircrete solutions that meet the customers' demand for a simple and fast building process. H+H enjoys great success in the sale of customer-specific system solutions in aircrete composed of H+H's standard range of products and systems. The development of relevant system solutions is based on customer input and know-how.



HEADING TOWARDS NEW MARKETS

H+H has a declared strategy of expanding geographically by acquiring or establishing factories and sales offices.

As will be seen from the map, the realisation of this strategy is well under way. For example, within the last two years, H+H has established itself in four new countries. In 2005 H+H expanded into Poland by acquiring five factories, and in 2006 H+H acquired a factory in the Czech Republic, followed by the establishment of sales subsidiaries in Ukraine and Slovakia.

The expansion has taken place in Eastern Europe, where aircrete is a well-known and widely used building material, and where there is great potential for economic growth. Geographically, the expansion has taken place consistently to countries adjoining H+H's existing markets, to ensure synergies with these. From a sales point of view, H+H's strategy is thus determined in relation to regions rather than merely national borders in an attempt to optimise the synergies between the various factories taking into account capacity and sales.

H+H is currently exploring the possibility of setting up production and sales in Russia, with particular focus on the St Petersburg region. H+H expects to make a decision in 2007 on whether to enter the St Petersburg Region. With St Petersburg as primary market and with its close proximity to H+H's existing markets in Finland and Poland as well as the possibility for future sales into the Baltic States, this region is well positioned from a sales strategy point of view.

Branding and logo

BRANDING

H+H aims to be a leading European supplier of aircrete products and solutions.

It is therefore crucial for H+H to build up a strong European brand that is visible in all the markets in which H+H has a presence. The customers must know what the brand stands for, and the brand must optimally be so strong as to make H+H the preferred supplier for buildings to which aircrete is applicable.

H+H is a sales-driven Business-to-Business company, and it is therefore vital to have a competent local organisation that builds up sales excellence in the individual market. H+H's staff are the company's key brand-builders as it is their job to ensure that H+H acts as a reliable partner providing the right solutions.

H+H has decided to streamline its branding and marketing efforts to achieve a common, strong visual platform. The reason for this is to respond to the internationalisation of the industry, both on the manufacturing and the customer side, and to make even better and more efficient use of marketing and concepts across national borders.

BRAND AND LOGO

As part of the optimisation of H+H's visual identity H+H has elected to unify its brand and logo. So far, most subsidiaries have been called H+H Celcon, but, apart from the UK, in which the Celcon name is H+H's trade mark for aircrete, this name has no specific meaning in any of the other countries. In future, there will only be a single, common brand: H+H, and a new logo:

build with ease

With its minimalist design and clean lines, the new logo is more contemporary and functional in its idiom, making it perfectly suited to underpin H+H's products and building systems, which are known precisely for their simplicity of use. Moreover, the straight design of the logo elements evokes associations with the H+H products' high quality in the form of smooth and sharply defined edges and corners.

With a more streamlined visual platform in the form of, for example, the new uniform brand and logo, and the common value proposition, Build with ease, H+H boasts a sound, internationally oriented foundation for creating a strong European brand.

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