Annual report 2016

H + H International A/S
Company Reg. No.: 49 61 98 12

Build with ease

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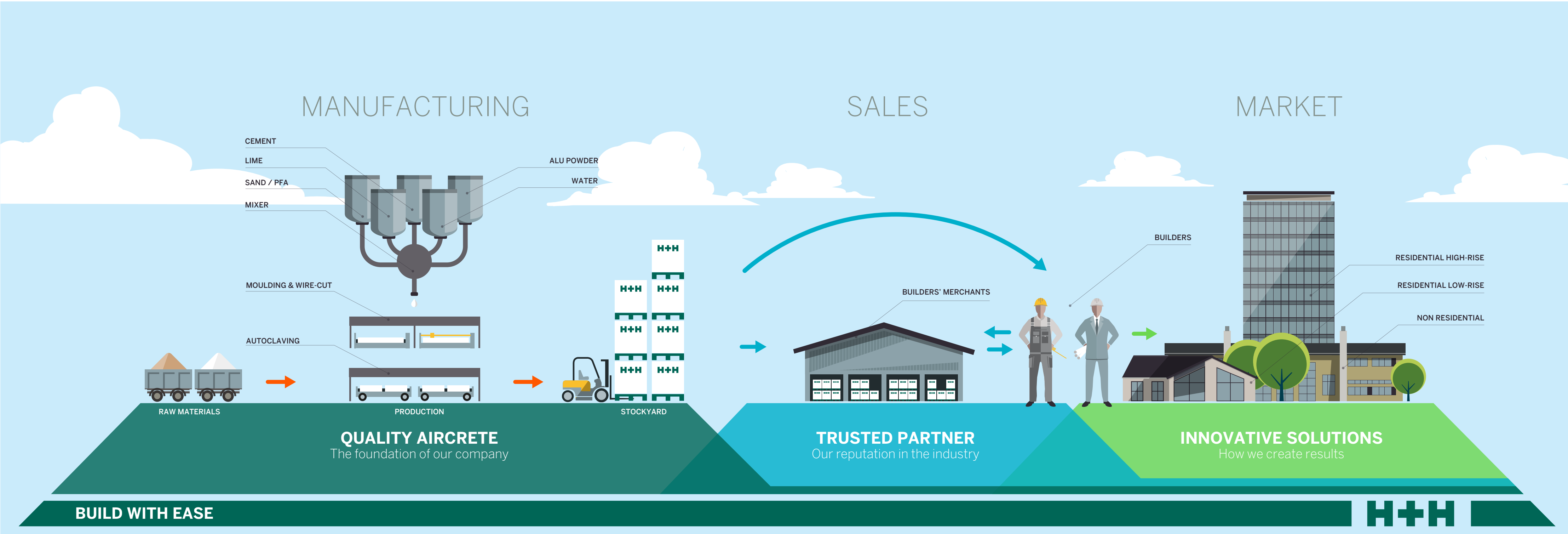
The business model



The H+H Group

About H+H

H+H's core activity is the manufacture and sale of autoclaved aerated concrete (AAC), or aircrete. The main product is a block used for building new houses, mainly in the low-rise segment.

The product range also includes more advanced products such as thermo blocks and standing wall elements.

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

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

Mission

To supply value added innovative aircrete solutions to buildings through profitable partnerships with distributors, contractors and housebuilders.

Growth and robust performance

Delivering on promises
The company continues to show progress and we are satisfied with the result. As the business exposure to the UK is high, one major question has been the predominant in 2016; what is the impact of the referendum in the UK to leave the European Union (Brexit)?

The most important observation to share is that the Brexit vote has not led to any significant changes in the fundamentals of our business, and our market leader position in the UK will continue to be a vital contributor to our continuous profit improvements. Housebuilding in the UK is still at lower levels than demand and according to market predictions, the activity in 2017 is expected to be on a par with or above the activity in 2016. Further details on the UK are to be found on page 9.

The macroeconomic outlook for Russia was a concern last year, but shows slow signs of improvements. We maintain our prediction; Russia will be back into growth within the medium term.

As stressed in the annual report for 2015, our business is exposed to economic cycles. However, our diversified geographical markets provide an inherent mitigation of economic downturns, as the markets only to some extent are correlated across our geographical footprint. Therefore, we remain optimistic about the future as all external indicators show growth in all of our markets.

Progressing entrance into the high-rise segment
For a number of years, it has in mainland Europe been clear that growth in the residential high-rise segment would outperform growth in the low-rise segment due to urbanisation and demography. H+H has initiated a number of initiatives in order to develop and market the properties of aircrete as a strong player in this segment.

Changing building tradition takes time, and our innovation projects are limited by physics. Despite this, we have managed to grow in the high-rise segment and are confident that our solutions will continue to penetrate into the high-rise segment. However, we are also aware that aircrete in some markets will not, in the short term, gain the desired position. In such cases we will be looking for complementary products.

Long-term financial targets
We have outperformed our long-term financial targets in 2016. The market outlook for the next three years seems promising based on assumptions similar to the ones listed for the outlook on 2017. The financial outcome of the strategic plan is projected to give an EBIT margin before special items in the range of 8-10% and ROIC above 12%. We have therefore raised the long-term financial target for EBIT margin before special items.

To bolster the financial situation, we are pleased to announce that a new bank agreement has been secured at attractive terms with a duration of three years in order to support the strategic plan and give headroom and flexibility to bring the business further forward.

Finally, I would like to thank all our employees for contributing to the continuous progress of our company.

On behalf of the Board of Directors,

Kent Arentoft
Chairman

The company continues to show profitable growth and we expect this to continue. We have therefore raised the long-term financial targets which we have outperformed in 2016.

Kent Arentoft, Chairman

Key figures

(DKK million)	2016*	2015*	2014*	2013*	2012*
			Group		
Income statement					
Revenue	1,610.6	1,621.0	1,379.9	1,260.1	1,223.6
Gross profit	404.8	410.2	340.5	261.5	272.3
Operating profit before depreciation, amortisation, financial items and before special items (EBITDA before special items)	210.6	182.3	140.1	93.6	109.4
Operating profit before depreciation, amortisation and financial items (EBITDA)	213.6	232.4	137.4	93.6	103.4
Operating profit before special items (EBIT before special items)	122.3	80.3	47.7	5.9	(62.2)
Operating profit/loss (EBIT)	125.4	130.4	45.0	5.9	35.6
Net financing costs	(21.5)	(36.9)	(44.3)	(42.5)	(42.9)
Profit/loss before tax	103.9	93.5	0.7	(36.6)	(7.3)
Profit/loss after tax for the year from continuing operations	95.9	58.4	(6.8)	(40.1)	(36.8)
Loss after tax for the year from discontinued operations	(6.7)	(19.1)	(16.3)	(52.4)	(45.5)
Profit/loss after tax for the year	89.2	39.3	(23.1)	(92.5)	(82.4)
Balance sheet					
Non-current assets	901.3	908.0	864.7	962.4	1,045.6
Total current assets	287.2	337.8	352.0	330.5	343.8
Share capital	107.9	107.9	98.1	490.5	490.5
Equity	277.5	255.0	151.7	293.9	417.9
Non-current liabilities	590.2	651.2	789.8	750.1	746.5
Total current liabilities	320.8	339.7	275.2	249.0	225.0
Total equity and liabilities	1,188.5	1,245.9	1,216.7	1,292.9	1,389.4
Investments in property, plant and equipment	83.3	60.7	42.6	35.5	24.0
Interest-bearing debt (net)	386.7	445.1	517.3	531.6	538.6
Cash flow					
Cash flow from operating activities	143.1	112.1	92.9	58.2	44.4
Cash flow from investing activities	(75.0)	(53.9)	(32.6)	(30.1)	104.1
Free cash flow	68.1	58.2	60.3	28.1	148.5

(DKK million)	2016*	2015*	2014*	2013*	2012*
			Group		
Financial ratios					
Gross margin	25.1%	25.3%	24.7%	20.8%	22.3%
Operating margin (EBIT margin before special items)	7.6%	5.0%	3.5%	0.5%	(5.1%)
Operating margin (EBIT margin)	7.8%	8.0%	3.3%	0.5%	2.9%
Return on invested capital (ROIC)	15.5%	15.9%	5.3%	0.6%	3.3%
Return on equity	33.5%	19.3%	(10.4%)	(26.0%)	(18.5%)
Solvency ratio	23.3%	20.5%	12.5%	22.7%	30.1%
Net interest-bearing debt/EBITDA	1.8	1.9	3.8	5.7	5.2
Share and dividend figures					
Average number of shares outstanding	10,738,998	10,572,702	9,791,192	9,789,511	9,789,511
Adjusted average number of shares outstanding	10,738,998	10,572,702	9,791,192	9,789,511	9,789,511
Share price, year-end (DKK)	75.5	86.5	35.3	47.7	26.0
Book value per share, year-end (DKK)	26	24	15	30	43
Price/book value	2.9	3.6	2.3	1.6	0.6
Price-earnings ratio (PE)	9.1	23.4	(15.0)	(5.0)	(3.1)
Earnings per share	8.3	3.7	(2.4)	(9.5)	(8.4)
Diluted earnings per share	8.3	3.7	(2.4)	(9.5)	(8.4)
Dividend per share	0	0	0	0	0
Staff					
Average full-time staff	1,041	1,034	866	885	1,001

* Figures have been adjusted for discontinued operations and restatement of provisions (refer to note 1 "General accounting policies" for further information).
Earnings per share and diluted earnings per share have been calculated in accordance with IAS 33.
The other financial ratios have been calculated in accordance with the Danish Society of Financial Analysts' "Recommendations & Financial Ratios 2015".

We continue to create profitable growth

A strong business model

Our performance in 2016 was satisfactory, as we have been challenged on a number of issues. Despite significant increases of raw material costs and adverse currency development, our business model and value proposition have proven to be able to take advantage of the positive market development, and we have shown growth in earnings in line with initial expectations. This includes significant contribution from our acquisition of Grupa Prefabet in Poland which has proven to be a sound investment as synergies have been realised. Further, it is relevant to stress that the earnings improvement came from other countries than the UK, so we are reducing our dependency on one country.

Positive market development

Overall, all markets grew measured on number of houses built. We have achieved our objectives of higher prices in Germany and Poland, which is one of the reasons we were able to reach our guided earnings, despite a significant decline in the GBP exchange rate following the Brexit referendum. The price increase process has been top of the agenda, and our behaviour in the market place seems to have been fruitful and margins are getting closer to normal levels. Cost improvements also contributed to the result arising from synergies from the acquisition of Grupa Prefabet in Poland, general cost containment and our deliberate action to optimise our product portfolio and step out of the market for heavy reinforced elements.

The general development in Russia was better than anticipated, and our performance in Russia was better than the market. Despite this, earnings from Russia was lower than the year before. This is a good example of the strength of our geographical footprint as other countries compensated for this. Headwind in some of our markets have been compensated by positive developments in other of our markets.

Excellence performance

We will further enhance our commercial excellence efforts, and for the period 2014-2016 our three objectives of expanding the market by penetrating new market segments (high-rise residential and non-residential buildings), create more pull sales (where we are in direct contact with the builders) and increase customer loyalty have been met. All parameters that have helped us over the last years to generate more volume and higher prices.

Finally, we are proud to report that we have completed the asset sales programme that was launched following the acquisition of Grupa Prefabet in Poland early 2015. The completion of the programme takes place 12 months earlier than anticipated and the final outcome is more than 10% higher than what was needed to meet the objective in the business case of the acquisition. With this, we have met all milestones in the business plan except for the EBIT margin target, which we expect to achieve in 2018 as initially set out.

An important contributor to the positive results is our *Build with ease* value proposition.

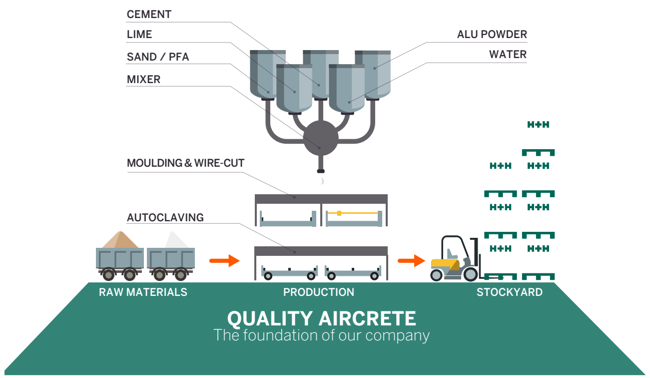
Our manufacturing units continue to take advantage of the internal excellence programmes and deliver, in environmental friendly production surroundings, quality aircrete with attributes fit for purpose. Customers confirm they see H+H as a trusted partner, and our close cooperation with customers opens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

Our performance in 2016 was satisfactory, as we have been challenged on a number of issues. Despite significant increases of raw material costs and adverse currency development, our business model and value proposition have proven to be able to take advantage of the positive market development, and we have shown growth in earnings in line with initial expectations.

Michael Troensegaard Andersen, CEO

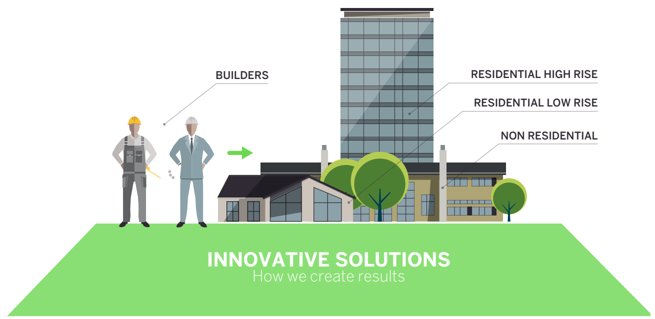
Build with ease - H+H's value proposition

MANUFACTURING



SALES

MARKET



Elements in H+H's value proposition

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

Quality aircrete

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

Trusted partner

We have always listened and responded to what our customers tell us, because we value nothing more highly than their trust in our products and our service. Our sales team is organized around the needs of our customers to provide continuity of care. We want customers to experience a knowledgeable and professional staff that provides a dedicated, personal service. Our commitment to high standards includes comprehensive sales office support, electronic trading facilities, flexible delivery times, easy access to technical and sales information and regular sales review meetings with our key customers.

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

Innovative solutions

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

H+H UK is set to continue its performance despite Brexit

Short-term impact of Brexit

As the UK is a large proportion of H+H's business, the Brexit referendum was monitored very closely. The initial reaction after the referendum was uncertainty. This still prevails, but whether visibility is lower than if the outcome had been another or the referendum had not taken place is an academic question. The facts are that the UK ended 2016 as the fastest-growing G7 economy, British stocks are the best performing in Europe, unemployment keeps falling and major global companies have announced huge investments in the UK.

Immediately after the referendum, the uncertainties materialised in lower number of site visits with some housebuilders slowing down and even ceasing to buy land. H+H sales continued unchanged as customers are on allocation due to shortage of supply. After a short period, housebuilders started to report that site visits and sales rates were back at 2015 levels or above and this pattern remained for the rest of the year. The only negative parameter from Brexit during 2016 was the depreciation of the GBP, which reduces the translation of the profits when converted to DKK.

Continuous growth

Market outlook remains positive, as the fundamental growth drivers are still intact. The main drivers are a structural undersupply of houses, governmental support via the Help to Buy scheme and availability of financing:

- **Structural undersupply of houses:** Estimates suggest that the UK are over a million dwellings short and are still massively under-delivering new homes. 3.3 million 20-34 year olds are still living at home with their parents and in the last 10 years, owner occupation amongst 25-35 year olds has fallen from 59% to 36%, with 1.4 million households on social housing waiting lists.

- **Government support:** The UK government is committed to increasing supply; the introduction of Help to Buy equity loan scheme has boosted sales since its launch and is scheduled to continue until 2021 at least. The government has also recently launched other funds.

- Furthermore, the government has published its White Paper on housing supply in which it sets out its plans for building new homes. It should amongst others lead to improvements in the planning process and provide help to small independent builders to enter the market.

- **Availability of financing:** Banks are lending and there are several products on the market. Interest rates are historically low.

Factory upgrade running to schedule

In March 2016, H+H announced the Borough Green factory upgrade project to ensure availability of aircrete and to maintain our market leader position within aircrete. The project is running to schedule and the major part of the physical upgrade will take place during the first half of 2018. As a consequence, 2018 will bring lower production output. This will be mitigated through significant imports from Poland to substitute local production of products with higher complexity. Due to the acquisition of Grupa Prefabet we have been able to optimise our internal supply chain. Sales of imported products have already started and will increase significantly from the second quarter of 2017 and the following four quarters.

Market outlook remains positive, as the fundamental growth drivers are still intact. The main drivers are a structural undersupply of houses, governmental support via the Help to Buy scheme and availability of financing.

Calum Forsyth, Managing Director H+H UK

Continuing the strategic direction

The core elements in our strategy

The diversity of our geographical markets give H+H a natural hedge against changes in economic conditions, despite some correlation across markets. It is worth noticing (based on data sets since 1970) that besides Russia in the 1990s none of our markets have experienced negative GDP growth in more than two consecutive years, and there has not been one single year where all markets have had negative GDP growth.

There has been no fundamental changes in the aircrete industry or the way H+H does business since last year. Our mission statement is unchanged, and our vision remains to be the number one aircrete supplier in our geographical footprint. We are constantly progressing on this, and have refined our way of measuring our position. Since 2013, we have measured the vision by aiming at selling the largest volume of aircrete within our geographical footprint. We are now asking the customers – using a mix of customer surveys and a NPS (net promoter score) system – to rate our performance.

One-company approach

H+H has adopted a one-company approach to deliver the most shareholder value. One of the key measures for the value of the approach is scalability – our ability to create revenue growth without a similar increase in fixed costs.

H+H will continue to harvest synergies from our one-company approach. We have initiated a procurement programme in operations together with a process where the operational excellence programme is converted into a stricter lean programme with more focus on culture, processes and procedures as the low-hanging fruits from the operational excellence programme have been harvested. The targets in the coming years will be on achieving savings to offset inflation. At the same time, the programme will target further increases in plant utilisation, as this remains a focus area and a key driver of profitability. In addition, as a consequence of the change in the overall financial situation our room for investments is significantly higher than in previous years. Hence, H+H will continue to improve the overall plant utilisation through a combination of on-going operational improvements, targeted profit improvement investments and volume growth in line with the market development where we have available capacity.

In sales and marketing, our focus on market share and profitability has been narrowed to profitability only, as we have a size which seems natural given the installed capacities and the market situation. The commercial excellence programme offers scale advantages as well as opportunities to share best practices and enhance our services further in order to increase profitability and volume wise grow with the market.

We have upgraded our commercial excellence efforts, and going forward, customer satisfaction measurements will be key in measuring performance. This includes not only formal surveys, but also to a larger extent adjustments in the way we interact with our customers to continuously improve our opportunities in the market place.

Attractive aircrete solutions

Building traditions and methods differ from country to country, and H+H has been able to adapt successfully and develop solutions for local markets. Our *Build with ease* value proposition will continue to drive our development of value-added solutions throughout the supply chain.

Innovation is key to meet the growing interest in environmentally friendly and energy saving products, and at the same time ensure that total cost of building is as low as possible.

We will continue to pursue both local and Group innovation initiatives. We are large enough to achieve economies of scale for centrally driven innovation activities. Our efforts focus on improvement of environmental properties, reduction in the overall cost structure and development of powerful solutions to increase penetration in the residential high-rise segment.

Our installation vehicle ERGO – a device used to improve building speed and working environment on building sites - was launched back in 2013. We now have 30 such vehicles working at building sites in Denmark and Sweden, despite only being marketed on a regional basis. In 2016, a 'comfort block' was launched, a niche product targeting energy improvements in basements.

Profitable growth

We continue to strengthen our market position as the number two in Europe, and our long-term goal is to become the overall number one aircrete supplier in our chosen geographical footprint. From a volume perspective, we are the second largest player in our geografical footprint.

We have, in previous years, been able to grow profitability with double-digit percentages. We continue to strive for delivering higher profitability in order to close the gap to our peers in some of the key ratios. This is within reach but will require continuous positive market development and in some markets further market consolidation or a broader product range.

Organically, the *Build with ease* value proposition ensures that we bring value to builders, as we know our segments and sales channels and their needs. This will allow us to grow volume wise in line with the market, and we see that customers are willing to pay a higher price as long as our solutions create value for their business. This can be attributed to the quality properties of H+H products, our reputation in the market as a trusted partner and our innovative solutions or a combination of these factors.

Growth options in the high-rise segment

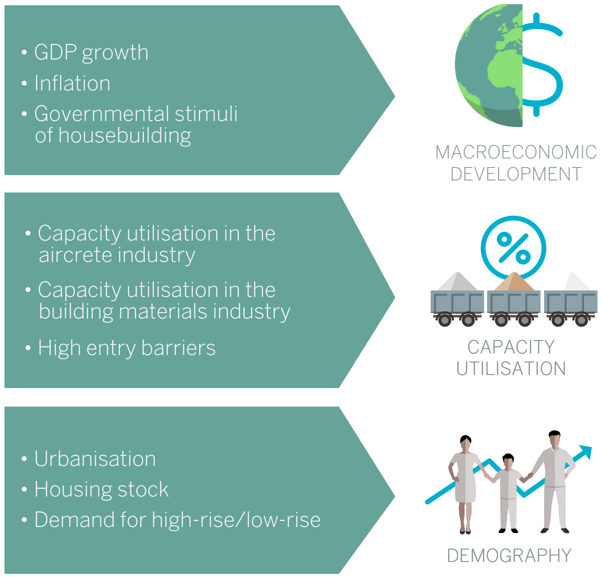
In the annual report last year, the aircrete-only focus was stressed, as no complementary product was available across our entire footprint.

Growth in the residential segment is in some countries significantly higher in high-rise than in the low-rise segment. The main reasons for this are urbanisation and demography, and for the time being this trend seems to continue. To increase our market share in this segment H+H has initiated a number of initiatives in order to develop and market the properties of aircrete in the high-rise segment. The initiatives are customized to support the local market demands as we do not see one common approach to penetrate this segment. As part of our continuous monitoring of strategic options we have initiated search for complementary products on a regional basis.

Our innovation efforts are to some extent focused on supporting our initiatives to penetrate the high-rise segment, although some of the projects are limited by physics. Despite this, we have managed to grow in this segment and are confident that our solutions will continue to penetrate the segment. However, we are patient as we do not foresee that aircrete can achieve the desired breakthrough in all markets in the short term.

The cyclicality of an aircrete business

H+H's business focuses on aircrete and related services and its geographical footprint is limited to Northern and Central Europe and Northwest Russia. It is also a cyclical business as demand is driven by housebuilding activity and the main drivers are illustrated below.



The supply side

Our geographical footprint consists of countries where aircrete has a high market penetration. The use of aircrete is determined by building tradition and design, and outside our current geographical footprint only the Czech Republic, Romania, Turkey and China have similarly high penetration levels. To date our efforts to penetrate new segments and win market share from substitute products have shown that such changes take time. Even with aircrete's excellent performance and properties, we are challenged by building traditions dating many years back.

In times of shortages of building materials, willingness to change building traditions is higher, as substitute products may offer the only way to keep on building. Hence, taking the substitution factor into account, capacity utilisation plays a pivotal role – in both the heavy building materials industry as a whole and the aircrete industry in isolation.

The lifespan of an aircrete factory is long, assuming adequate maintenance during its lifetime, and it is capital-intensive and time-consuming to increase capacity with current production methods. Thus, in markets with high aircrete penetration, changes in installed capacity is limited, and, as a consequence, imports from other regions can serve as a buffer in times of high demand, allowing producers located far away from the market to make a profit despite the additional transport costs. When recession sets in, these imported products are the first to leave the market.

The Borough Green factory upgrade in the UK will be an important contributor to our capacity increase in addition to results from our lean programme, that is expected to bring some increase in our production capacity at a very low cost.

Our main competitors within aircrete are Ytong (Xella), Solbet, Thermalite (Forterra) and Aeroc (LSR Group). The range of substitute products is wide, including clay bricks, silicate limestone, timber and various types of concrete. As competitors have a broader product range than H+H, their cycles may deviate if their customers' demand does not follow the same pattern as our aircrete customers' demand.

The demand side
The main driver on the demand side for aircrete is the need for new residential buildings. This is primarily influenced by the general economic development and to a lesser extent by the demographic development.

The main economic drivers for housebuilding are GDP growth, inflation and access to financing and governmental stimuli. GDP growth is a reasonable indicator in the longer term, but in the short term the correlation can be quite low, as demand for housebuilding is also driven by fluctuations in consumer confidence which are often stronger than the development in the GDP; growth in housebuilding often exceed GDP growth during an economic boom but fall short when times are hard. Demand can also be expressed as 'hyper cyclical' as the magnitude in the change in demand exceed the change in GDP. Inflation rates and monetary policy can impact demand, as high inflation makes it attractive to have surplus cash invested in real estate. A recent example is Russia, that saw a building boom in 2014 despite everything pointing to an upcoming economic crisis.

The demand side can also be stimulated by government initiatives. In the UK, where the previous government introduced a number of programmes to support housebuilding and encourage people to own rather than rent, this has contributed to a positive market development. Access to financing is to some extent politically driven, and lack of financing reduces demand in the market.

A number of other drivers also impact demand. One is demographics, and there are two long-term trends here that will affect the housebuilding industry: an ageing population and urbanisation. There are also significant differences in floor space per capita across the various markets, and in some cases a large proportion of the housing stock was built to standards that are below the requirements for modern living.

Energy renovation is another driver on the demand side. Legislators have set higher requirements for energy efficiency in recent years, which may affect building design and the choice of building materials. Aircrete is well-positioned for this. For renovations, aircrete has only a niche position and nothing points to further penetration of this market segment.

Demand is set to continue to increase. In the majority of our markets various sources indicate a structural undersupply of houses, and annual demand exceeds current build rates. With a strong value proposition and compliance with the latest environmental and energy regulations we expect to experience further growth across our geographical footprint in the years to come.

Market
H+H's diversified geografical markets to some extent give a natural hedge against changes in economic conditions.

Sales
H+H has initiated a number of initiatives in order to develop and market the properties of aircrete in the high-rise segment.

Manufacturing
Plant utilisation remains a focus area and a key driver of profitability.

Financial highlights

Performance in 2016

- Revenue increased by 6.4% in local currencies (organic growth) and decreased slightly in DKK to DKK 1,611 million.
- EBITDA of DKK 210.6 million before special items, which is at the top end of our initial outlook of DKK 190-210 million.
- Adverse impact from weak GBP and increasing raw material costs offset by a positive market development and benefits from commercial and operational excellence programmes.
- Investments of DKK 83.3 million were made during 2016 in line with our guidance in the region of DKK 80 million.
- EBIT margin before special items of 7.6% against a long-term target of minimum 6-8%.
- ROIC was 15.5% against a long-term target of minimum 12%.
- Net interest-bearing debt on 31 December 2016 of DKK 387 million. NIBD over EBITDA ratio is 1.8.
- On 16 March 2017 a new committed credit facility was agreed with Danske Bank A/S subject to H+H's fulfilment of certain formal requirements concerning the execution of the loan agreement by all relevant H+H group entities and renewal of certain security.
- Cash flow from operating activities of DKK 143.1 million (2015: 112.1 million) and cash flow from investing activities of DKK (75.0) million (2015: (53.9) million).
- Free cash flow DKK 68.1 million (2015; DKK 58.2 million) including proceeds from the asset sale programme which has been completed ahead of schedule and it has exceeded its target of DKK 70 million.
- Equity on 31 December 2016 of DKK 278 million, which is slightly higher than last year due to profit for the year being offset by an increase in the UK pension obligations.

Outlook for 2017

- Organic revenue growth is expected to be 5-7%.
- EBITDA before special items is expected to be DKK 220-240 million.
- Special items of approximately DKK 25 million cost are expected to be incurred as a result of the Borough Green factory upgrade and resulting need to import products from Poland. The increased transportation cost will be expensed at the point of sale and treated as a special item.
- Investments excluding mergers, acquisitions and divestments are expected to be in the region of DKK 120 million.

Long-term financial targets

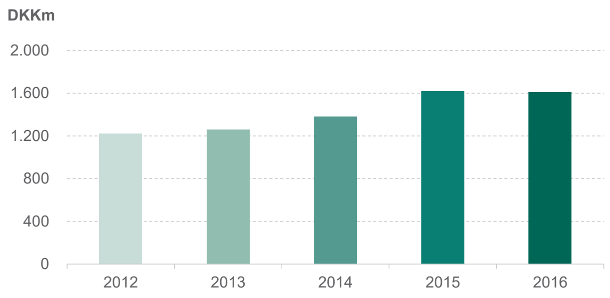
- Long-term financial targets have been revalued:
  - EBIT margin before special items is upgraded, was minimum 6-8% and is now 8-10%.
  - ROIC is maintained at minimum 12%.

EBITDA before special items increased by 16% despite the weakening of the GBP. Our net interest-bearing debt reduced again to provide a very satisfactory NIBD over EBITDA ratio of 1.8.

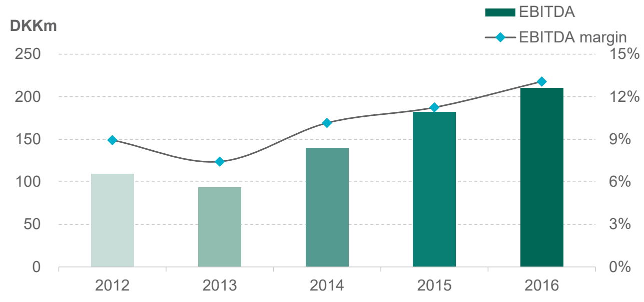
We are now well placed to invest in our future growth.

Ian Lea Perkins, CFO

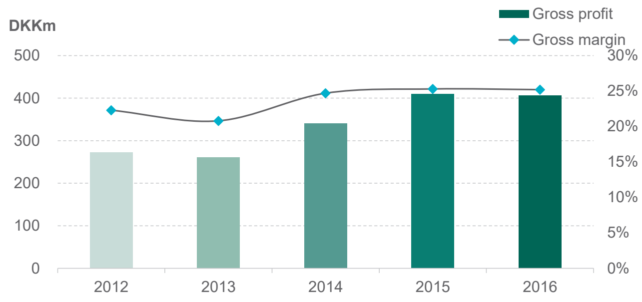
Revenue



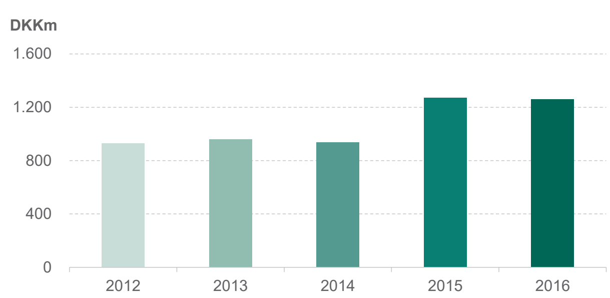
EBITDA before special items



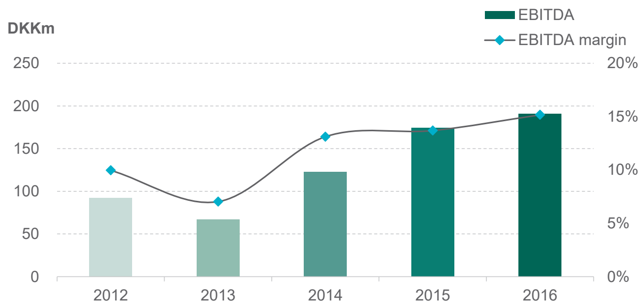
Gross profit



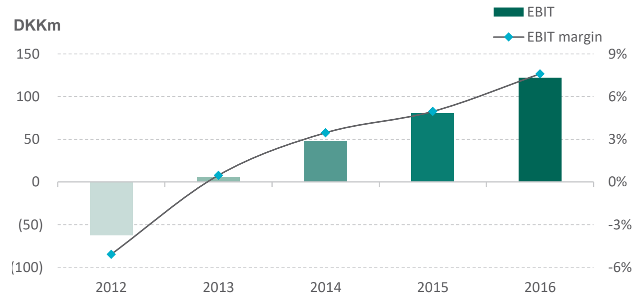
Revenue, Western Europe



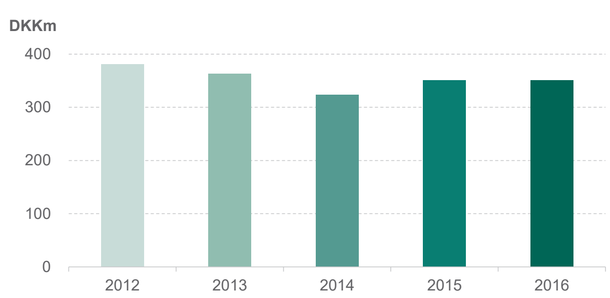
EBITDA before special items, Western Europe



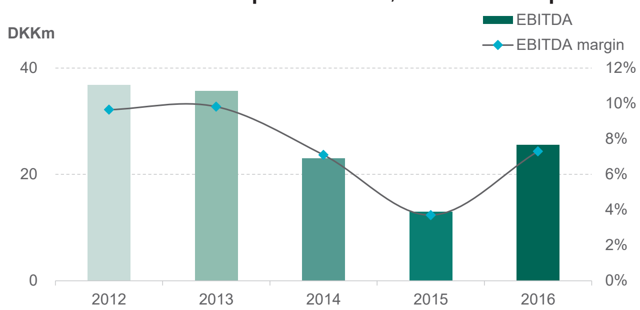
EBIT before special items



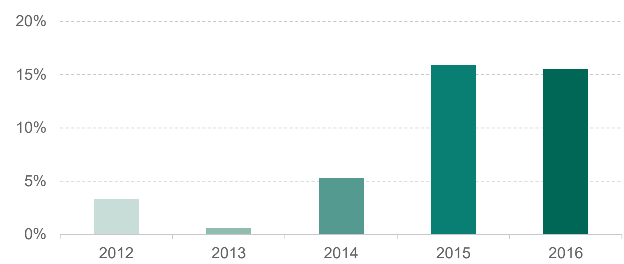
Revenue, Eastern Europe



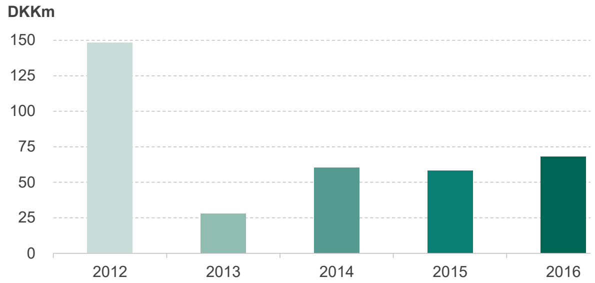
EBITDA before special items, Eastern Europe



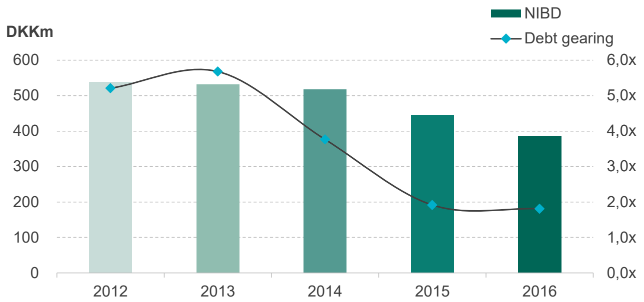
Return on invested capital (ROIC)



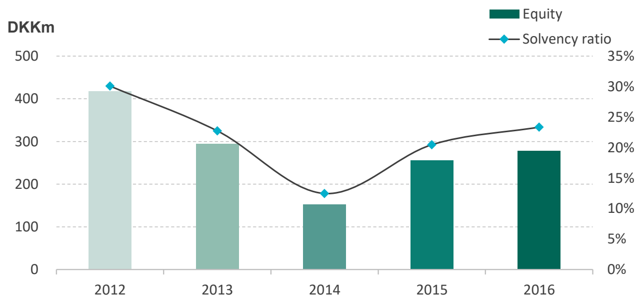
Free cash flow



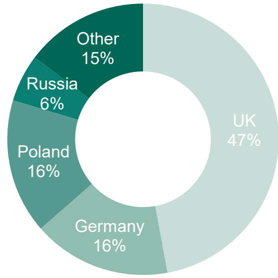
Net interest bearing debt



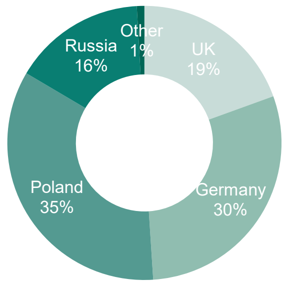
Equity



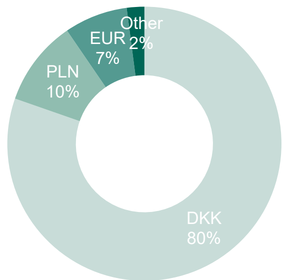
Revenue allocation

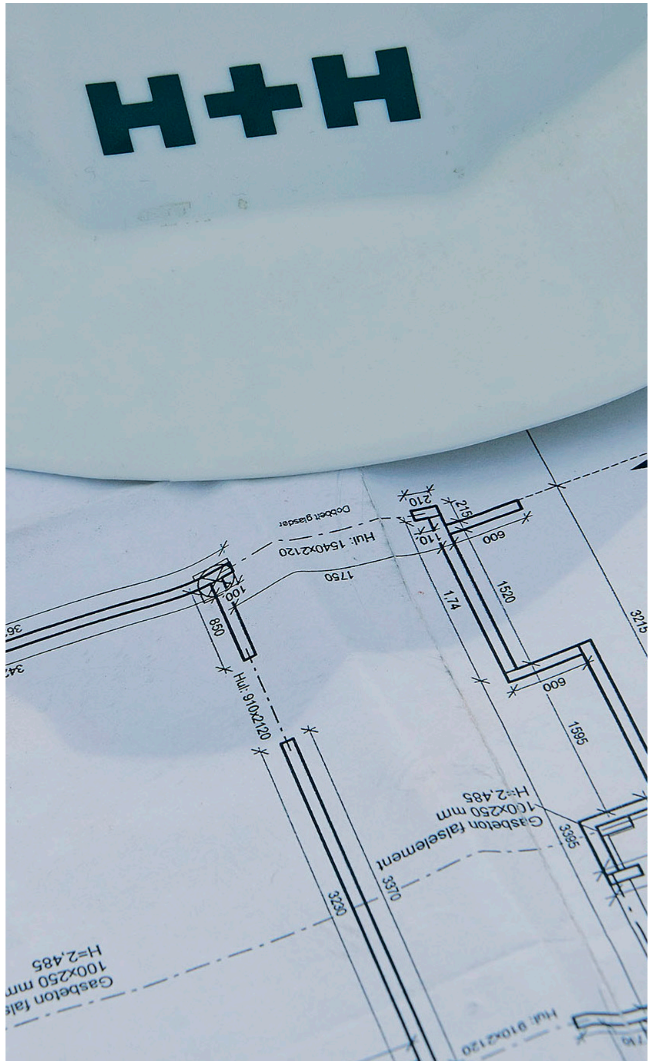


Allocation of non-current assets



Debt allocation per currency





Financial review

Income statement

Revenue

Revenue was DKK 1,611 million, against DKK 1,621 million in 2015, a small decrease of DKK 10 million. Revenue has been adversely impacted by the weak GBP and other currencies but this has been offset by organic growth of 6.4% which comes from a combination of higher selling prices and higher volumes.

The GBP exchange rate had a negative effect on revenue of DKK 102 million. The RUB had a negative impact of DKK 7 million and the PLN a negative impact of DKK 13 million.

Production costs

Production costs were lower than in 2015. Savings from operational excellence projects, country mix, the GBP exchange rate and higher production volumes all helped to reduce the overall unit cost of production. These savings were offset in part by increased pulverised fuel ash (PFA) costs and inflationary pressures in some countries.

Gross profit

The gross margin was 25.1%, against 25.3% in 2015. Average selling prices were up on 2015, and increased capacity utilisation due to higher production volumes had a positive impact on margins. These positives were offset by an adverse country mix.

Special items

2016 brought net positive special items of DKK 3.0 million. Profit from the sale of assets being offset in part by the cost of closed down factories in Poland and an onerous contract. Special items in 2015 benefited from the acquisition of Grupa Prefabet.

EBITDA

EBITDA came to DKK 213.6 million, against DKK 232.4 million in 2015, down 8%. This is largely due to the positive impact of negative goodwill being recognised in 2015.

EBITDA before special items was DKK 210.6 million, against DKK 182.3 million in 2015, up 16%. The increase in EBITDA before special items was due to better selling prices and higher sales and production volumes offset in part by the adverse development in GBP.

Operating profit (EBIT)

Operating profit was DKK 125.4 million in 2016 (EBIT margin of 7.8%) against DKK 130.4 million in 2015 (EBIT margin of 8.0%); a reduction of DKK 5.0 million.

Before special items, EBIT was DKK 122.3 million (EBIT margin of 7.6%) against DKK 80.3 million in 2015 (EBIT margin of 5%).

Return on invested capital (ROIC)

Return on invested capital was 15.5%, compared with 15.9% in 2015.

Profit before tax from continuing operations

Profit before tax was DKK 103.9 million, against DKK 93.5 million in 2015, an improvement of DKK 10.4 million.

Net financials totalled DKK 21.5 million in 2016, against DKK 36.9 million in 2015. The reduction came from reduced borrowings and lower interest rates. Besides interest expenses and foreign exchange adjustments, the figure includes amortisation of borrowing costs, payments for an unused committed credit facility and expenses for the pension scheme in the UK.

Taxation

Tax for 2016 was DKK 8.0 million, against DKK 35.1 million in 2015. The main movement was from deferred taxation primarily related to change in valuation of tax assets.

Discontinued operations

Discontinued operations generated a loss of DKK 6.7 million in 2016, against a loss of DKK 19.1 million in 2015.

Other comprehensive income

Other comprehensive income was a negative DKK 60.8 million, against a positive DKK 22.4 million in 2015. Profit of DKK 16.9 million on movements in foreign exchange were offset by losses of DKK 77.7 million on UK pensions. Further details can be found in the Equity section.

Western Europe

Revenue in Western Europe was DKK 1,260 million, a decrease of DKK 12 million or 1% on 2015. Expressed in local currency, revenue was up 6.7% on 2015. Revenue growth in local currency was driven primarily by higher revenue in the UK, where both prices and volumes increased. Revenue also increased in the Nordic countries and Benelux. In Germany revenue was slightly lower as a result of exiting the heavy reinforced market.

EBITDA was DKK 186.4 million, against DKK 169.3 million in 2015. The increase was due to higher selling prices and better capacity utilisation offset by adverse exchange rates from the UK. All subsidiaries' EBITDA was up on last year despite the adverse GBP exchange rate. Adjusted for special items EBITDA was 191.1 million (2015: DKK 174.2 million).

Profit before tax was DKK 128.1 million, against DKK 96.6 million in 2015, an improvement of DKK 31.5 million.

Eastern Europe

Revenue in Eastern Europe was DKK 350 million, a decrease of DKK 1 million on 2015. Expressed in local currency revenue was up 5.3% on 2015.

In Russia, 2016 was not as good as 2015 but was significantly better than had been expected at the beginning of the year. Sales volumes were adverse to last year, whereas prices were on par with last year.

In Poland, sales volumes and revenue were higher than in 2015. The integration of Grupa Prefabet has run to schedule and has achieved all the objectives that had been expected.

EBITDA was DKK 28.9 million, against DKK 71.5 million in 2015, a decrease of DKK 42.6 million. Adjusted for special items, EBITDA was DKK 25.6 million (2015: DKK 13.0 million). The special items in 2015 related mostly to negative goodwill from the acquisition of Grupa Prefabet and reorganisation costs.

2016 brought a loss before tax of DKK 13.7 million, against a profit of DKK 9.6 million in 2015, a reduction of DKK 23.3 million. The reduction is influenced by positive special items in 2015 from the acquisition of Grupa Prefabet.

Eliminations and unallocated items

Unallocated net expenses amounted to DKK 10.5 million in 2016, a reduction of DKK 2.1 million on 2015.

Cash flow

Operating activities

Cash flow from operating activities was DKK 143.1 million (2015: DKK 112.1 million) primarily from operating profit. Free cash flow was DKK 68.1 million (2015: DKK 58.2 million).

Investing activities

Investments of DKK 83.3 million were made during 2016, against DKK 60.6 million in 2015.

The asset sale programme announced in 2015 has achieved its objective, having brought a net cash flow of DKK 77.0 million. The proceeds consisted partly of the conditional sale of a land plot in Poland, which was completed in the fourth quarter of 2015, in addition to the sale of the equipment and scrap steel during 2015 and 2016 and finally in December 2016 the sale of land and buildings at Kozienice, Poland.

Financing activities

Further details on the share capital increase can be found in the Equity section.

Balance sheet

The balance sheet total at 31 December 2016 was DKK 1,189 million, against DKK 1,246 million at year-end 2015.

Financing

Net interest-bearing debt totalled DKK 387 million on 31 December 2016, down DKK 58 million on 31 December 2015. The debt-to-EBITDA ratio improved slightly to 1.8 compared to 1.9 in 2015 (2015 was 2.4 excluding special items).

We are pleased to announce that on 16 March 2017, a new bank agreement has been secured at attractive terms with a duration of three years. The new committed credit facility was agreed with Danske Bank A/S subject to H+H's fulfilment of certain formal requirements concerning the execution of the loan agreement by all relevant H+H Group entities and renewal of certain security. Please refer to page 65 for further details.

H+H will continue to be dependent on debt financing in the coming years. Maintenance of the committed credit facility is conditional upon compliance with a number of financial covenants.

Equity

H+H's equity increased by DKK 22.5 million in 2016. The profit for the period increased equity by DKK 89.2 million, while foreign exchange adjustments of investments in subsidiaries increased equity by DKK 16.9 million, largely driven by the increase in the RUB exchange rate. Adjustments to pension obligations in the UK decreased equity by DKK 77.7 million. The main reason for this is a fall in the interest rate on the bonds used to calculate the liability required to cover benefits offered under the defined-benefit pension scheme. Further analysis on the sensitivity of the fund to various assumptions can be found in note 19.

Other adjustment of negative DKK 5.9 million relates to the matching share programme and mainly comprise of treasury shares that have been purchased during the year. Refer to the notes 3 "Staff costs" and 18 "Share capital and treasury shares" for further information.

Management review for the parent company

Profit/loss for the year 2016 resulted in a loss of DKK 53.1 million (2015: loss of DKK 73.9 million), this due to an impairment of investment in subsidiaries of DKK 62.7 million.

Events after the balance sheet date

New bank agreement

On 16 March 2017, a new committed credit facility was agreed with Danske Bank A/S subject to H+H's fulfilment of certain formal requirements concerning the execution of the loan agreement by all relevant H+H Group entities and renewal of certain security. The new agreement lasts for three years.

Other than the above, no events have occurred after the balance sheet date that will have a material effect on the parent company's or the H+H Group's financial position.

Comments relating to Q4 2016

Revenue

Fourth-quarter revenue decreased by 0.3% in local currencies (organic growth) and decreased by 7.6% to DKK 346.5 million.

Gross margin

The overall gross margin in the fourth quarter was 24.3% against 30.9% in 2015. The decrease was driven by a combination of unfavourable exchange rate changes of the GBP and PLN, stock adjustments and country mix.

EBITDA

EBITDA in the fourth quarter was DKK 44.5 million before special items (2015: 41.3) and DKK 50.6 million after special items (2015: DKK 63.4 million).

The increase in EBITDA before special items was mainly due to improvements in the Western European segment. The reduction in EBITDA after special items was driven mainly by the reduction in the profit from sale of assets.

Operating profit (EBIT)

Operating profit for the fourth quarter was DKK 23.7 million in 2016 against DKK 33.6 million in 2015, a decrease of DKK 9.9 million. The decrease in operating profit was mainly due to lower proceeds from sale of assets in Poland.

Operating profit before special items for the fourth quarter was DKK 17.5 million in 2016 against DKK 11.5 million in 2015, an improvement of DKK 6 million.

Profit before tax from continuing operations

Profit before tax from continuing operations was DKK 17.6 million against DKK 25.3 million in 2015, a decrease of DKK 7.7 million.

Cash flow

Fourth-quarter free cash flow was DKK (7.4) million, against DKK 44.2 million in the same period of 2015. The fourth-quarter of 2015 benefited from lower capital expenditure and higher sale of assets.

Investments

Investments of DKK 43.5 million were made during the fourth quarter, predominantly from the UK. In the fourth quarter of 2015, investments totalled DKK 22.0 million.

Western Europe

Fourth-quarter revenue in Western Europe increased by 1.5% in local currencies (organic growth) and decreased by 9% in DKK to DKK 280.4 million. In Western Europe sales volumes were at similar levels to last year and prices were higher. The GBP exchange rate had a negative impact on revenues of DKK 19.4 million. Production costs were favourable despite continuing increase in PFA costs.

Fourth-quarter EBITDA was DKK 27.4 million, against DKK 27.7 million in 2015, a decrease of DKK (0.3) million. Fourth-quarter EBITDA before special items was DKK 32.1 million, against DKK 27.7 million in 2015, an improvement of DKK 4.4 million.

Fourth-quarter profit before tax was DKK 9.9 million, against DKK 8.6 million, an increase of DKK 1.3 million.

Eastern Europe

Fourth-quarter revenue in Eastern Europe decreased by 8.2% in local currencies (organic growth) and by 7% in Danish kroner to DKK 66.1 million. In Eastern Europe sales volumes were lower in both countries, but mainly driven by Russia. Prices though were higher in both Poland and Russia than last year.

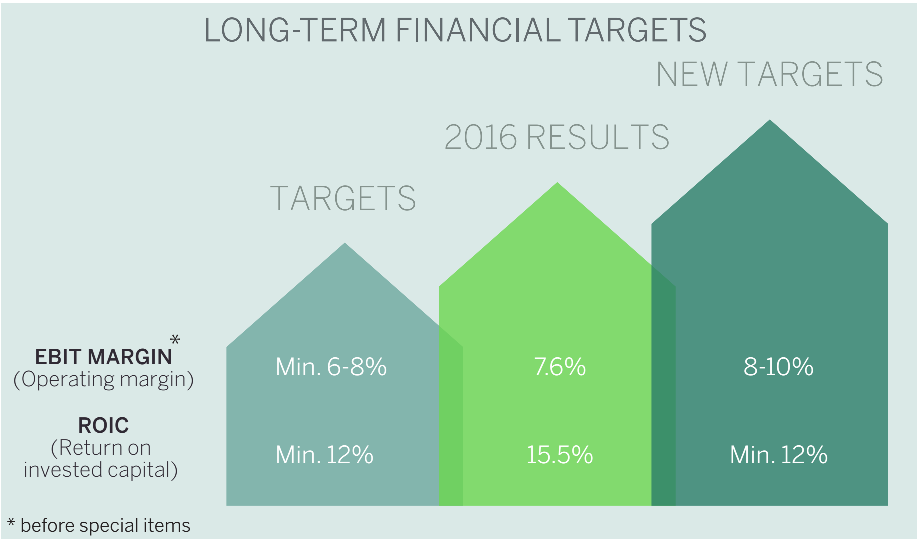
Fourth-quarter EBITDA was DKK 1.9 million, against DKK 16.8 million in 2015, a decrease of DKK 14.9 million due to lower proceeds from sale of assets. Fourth-quarter EBITDA before special items was DKK (5.0) million, against DKK (6.1) million in 2016, an improvement of DKK 1.1 million.

Fourth-quarter profit before tax was DKK (4.6) million, against DKK (1.5) million in 2015 a decrease of DKK 3.1 million.

Outlook for 2017 and updated long-term financial targets

Outlook for 2017

- Revenue growth in local currencies (organic growth) is expected to be 5-7%.
- EBITDA before special items is expected to be DKK 220-240 million.
- Special items of approximately DKK 25 million cost are expected to be incurred as a result of the Borough Green factory upgrade and resulting need to import products from Poland. The increased transportation cost will be expensed at the point of sale and treated as a special item.
- Investments excluding mergers, acquisitions and divestments are expected to be in the region of DKK 120 million.



Assumptions for the outlook for 2017

The expectations for H+H's financial performance in 2017 are based on the following *specific* assumptions:

- Economic growth of around 1-3% in our geographical footprint.
- The commercial and operational excellence programmes continue to deliver improvements.
- Exchange rates, primarily for GBP, EUR, PLN and RUB, hold at their mid-March 2017 levels.
- Energy and raw material prices rise only in line with inflation from their mid-March 2017 levels.
- The geopolitical situation does not result in changed market conditions.

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

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

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

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

Disclaimer

This annual report contains forward-looking statements.

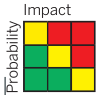
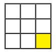
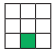
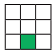
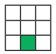
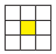
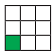
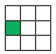
Such statements are subject to risks and uncertainties, as various factors, many of which are beyond the control of H+H International A/S, may cause actual developments and results to differ materially from the expectations expressed in the annual report.

Risk management

Risk management is an ongoing process at H+H, involving the identification of risks and an assessment of their likelihood as well as their potential impact on earnings, equity and H+H's reputation. We aim to mitigate identified risks through internal business procedures, insurance and/or follow-up. Procedures, guidelines and various control systems have been developed to monitor and mitigate the risks identified, ensuring optimal management of all key risks.

H+H use long-term scenarios as part of an annual evaluation of opportunities for and barriers to future growth, conducted during the strategy process. The scenarios are used to evaluate the impact of major decisions and the potential impact of major risks.

The Board of Directors has ultimate responsibility for the Group's risk management process and establishes the overall framework for it, whereas the duty of monitoring and mitigating risks has been delegated to the Executive Board.

Risk		Scenario	Action
Market		With significant operational gearing and fixed costs, demand has a noticeable effect on H+H's financial performance. Developments in the global economy and especially the construction sector, as well as political risks such as Brexit, initiatives such as taxes or tax deductions targeting the building industry or home owners, or changes to the mortgage system, have a significant direct and indirect impact on H+H.	Monitoring economic and political developments in the various markets and effective sales follow-up on a weekly basis.
Production		A major production breakdown or fire in a factory could cause a long-term loss of production. This shortfall would have an effect on sales unless made up by other H+H factories.	Plans are in place to limit the time to fix production issues. Business interruption due to natural disasters/fire/explosions etc. is covered by insurance, which includes the additional cost of servicing the market from other sourcing options.
Raw materials & energy		Production is dependent on the supply of raw materials. Production costs are exposed to the effects of higher energy prices on the cost of transportation and price changes for cement, sand and lime.	All critical raw materials have dual sourcing, and substitution of suppliers can be implemented relatively easily (although at a cost). The cost of energy consumption in production corresponds to 5-10% of revenue, so we monitor prices closely.
Competition and pricing		H+H is the second-largest player in the European aircrete market. This market position could be endangered by mergers between competitors. Excess production capacity in some markets could result in a price war.	Competitor monitoring to the extent possible. Strong market visibility to maintain market position. Price monitoring in the various markets on a weekly basis with possible price adjustments.
Foreign exchange rates		H+H's earnings are primarily in GBP and EUR, while its borrowings are primarily in DKK, PLN and EUR. Any developments in the financial markets, especially in GBP, could have a significant impact on H+H.	Exchange rate risks are mitigated under established policies and are subject to ongoing follow-up and reporting. H+H does hedge currency to reduce the exposure and tries to match assets and liabilities within each country when possible.
Capital structure & cash flow		Net interest-bearing debt amounted to DKK 387 million at the end of 2016 and H+H will remain dependent on external financing in the future.	A new bank agreement was signed on 16 March 2017 that lasts for three years and is aligned to our financial strategic objectives. The bank can terminate the facility prematurely if H+H fails to meet certain financial covenants.
UK pensions		The UK defined-benefit pension scheme is closed but has accrued benefits and a pension deficit. Each year the pension assets and liability are revalued. A change in the discount rate of 0.1 percentage point would change the obligations by approx. DKK 13 million. A change in the rate of inflation would change the obligation by approx. DKK 6 million, both affecting equity.	The deficit is revalued at least once a year by an external specialist firm. Each quarter, an estimation is made of the movement in deficit based on changes in the key assumptions. The cash flow impact is normally limited to triennial valuations. The investment strategy, which is the responsibility of the UK pension fund trustees, can be tailored to reduce volatility.

Corporate social responsibility (CSR)

Corporate social responsibility (CSR)

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

Aircrete is a particularly eco-friendly building material, not only because of its excellent thermal insulation properties but also because the production of aircrete is easy on the environment, and at the end of its life cycle aircrete can be crushed and used for other purposes, such as road fill and cat litter. The primary materials used in the production of aircrete are cement, lime and sand, all of which are based on abundantly available natural resources. In the UK, pulverised fuel ash, a residual product from power generation at coal-fired power stations, is used as a raw material instead of sand.

CSR policies

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

CSR statement for 2016

Pursuant to section 99a of the Danish Financial Statements Act, H+H International A/S publishes an annual statement on its CSR policies, actions taken to implement these policies and the results of these actions. The 2016 statement forms part of management's review and can be found on the company's website at www.HplusH.com/csr-statement.

H+H's compliance efforts are an ongoing process and an integrated part of H+H's strategy and business supporting value creation for H+H, its shareholders and stakeholders.

Corporate governance

Recommendations on corporate governance
As a company listed on Nasdaq Copenhagen, H+H International A/S is subject to its *Rules for issuers of shares*, including an obligation to comply with the *Recommendations on Corporate Governance* issued by the Danish Committee on Corporate Governance or to explain why not and describe any alternative implemented instead. The recommendations as last updated in November 2014 are available on the Committee's website: www.corporategovernance.dk.

In accordance with the recommendations, H+H International A/S has prepared a report on the company's compliance with the recommendations in 2016. The report forms part of the company's Statutory annual corporate governance statement under section 107b of the *Danish Financial Statements Act*, which can be viewed on the company's website at www.HplusH.com/governance-statement. H+H International A/S essentially complies with the recommendations, with the only deviations for 2016 being:

- H+H International A/S has not set any objectives or produced any policy to ensure diversity at management level in the company and this is a departure from recommendation 2.1.6 of the *Recommendations on Corporate Governance*. However, not to set objectives or have a policy is in line with the exemption granted in section 139a(6) of the *Companies Act to small organisations with less than 50 employees* in respect of the obligation to set objectives and produce a policy to ensure diversity, including a higher proportion of the underrepresented gender. The decision not to establish any objectives or policy with regard to diversity is due to the fact that there is less than 15 employees in H+H International's organisation, meaning there are only limited or no changes in the organisation in a given year, which again makes it very difficult to effectively pursue any diversity objectives and policy within a meaningful time frame. That being said, H+H International's organisation is quite diverse in respect of competencies, age and nationality, since out of the current 13 employees (including the Executive Board), there are four women and nine men, three different nationalities and ages ranging from 30 to 65 years.

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

- The Articles of Association do not stipulate a retirement age for the members of the Board of Directors and this is a departure from recommendation 3.1.4 of the *Recommendations on Corporate Governance*. The Board of Directors considers a fixed retirement age to be arbitrary and, instead, wants the Board of Directors in

its nominations and the general meeting in its election of board members to be able to make a decision on the basis of an overall assessment of the candidates in which age is just one of several parameters.

- The Remuneration Committee has not recommended a remuneration policy for H+H International A/S in general and this is a departure from recommendation 3.4.7 of the *Recommendations on Corporate Governance*. With only 13 employees (including the Executive Board) in H+H International A/S, the Remuneration Committee has only recommended a remuneration policy applicable for the Board of Directors and the Executive Board, but not for the company in general since such policy would only apply to 11 employees with very different areas and levels of responsibility and functions.

Diversity at management level

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

Pursuant to section 139a of the *Danish Companies Act,* H+H International A/S has set a target for the gender distribution of the Board of Directors, whereby the Board shall seek to ensure that each gender is represented (i) by at least one shareholder-elected member when the Board of Directors has four shareholder-elected members; (ii) by at least two shareholder-elected members when the Board of Directors has five to seven shareholder-elected members; and (iii) by at least three shareholder-elected members when the Board of Directors has eight shareholder-elected members. The target shall be reached no later than at the annual general meeting in 2019. The target is in line with the Danish Business Authority's *Guidelines on target figures, policies and reporting on the gender composition of management* issued in March 2016. At the end of 2016 the Board of Directors consisted of five shareholder-elected members out of which one was a woman. Hence, the target was not met in 2016 which is due to there not being any changes made to the board composition during 2016.

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

Shareholder information

Share capital and shareholders

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

As at 1 January 2017, H+H International A/S had 3,919 registered shareholders (corresponding to 83.32% of the share capital), including 190 foreign shareholders, and the company held 70,228 treasury shares. On the same date, H+H International A/S had two major shareholders each holding more than 5% of its shares: Nordea Fund Management, subsidiary of Nordea Funds OY, Finland and Handelsbanken Fonder AB, Sweden; and one majer shareholder holding more than 10% of its shares: ATP.

Members of H+H International A/S's Board of Directors and Executive Board are included in the company's permanent insider register. These persons and persons connected to them are only allowed to buy and sell shares in the company during the four weeks immediately after the publication of each interim financial report or annual report. If in possession of inside information, such persons are prohibited from trading even during the said four-week period for as long as this information remains inside information. The company may not buy or sell its own shares during a three-week period immediately preceding each interim financial report or annual report, and the company may not trade whilst in possession of inside information.

Capital structure

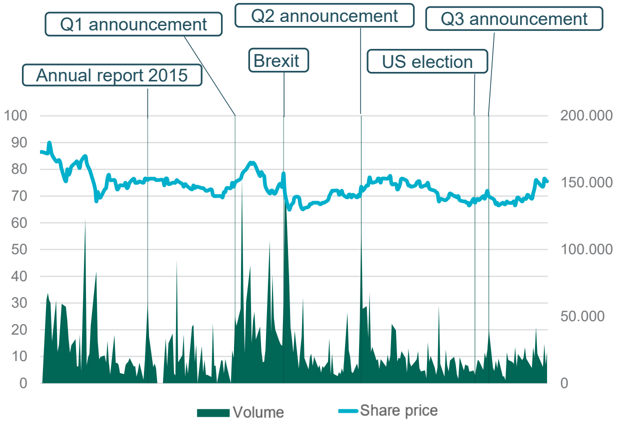
The Board of Directors and Executive Board regularly evaluate the company's capital structure on the basis of expected cash flow and in the light of the company's earnings, debt, loan covenants etc. with a view to ensuring an appropriate balance between adequate future financial flexibility and a reasonable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

H+H International A/S had a solvency ratio of 23.3% at the end of 2016, compared with 20.5% at the end of 2015. The company's net interest-bearing debt totalled DKK 387 million at the end of 2016, compared with DKK 445 million at the end of 2015.

Shares

H+H International A/S's shares are listed on Nasdaq Copenhagen in the Small Cap segment (ticker code HH, ISIN DK0015202451). The company has a single share class, and the Board of Directors is of the opinion that the shares' listing increases the company's options when it comes to raising new capital.

The company's share price decreased by 13% to DKK 75.5 per share in 2016. By way of comparison, the OMXC20 index was flat and the OMXC SmallCap index gained 14%. Turnover in 2016 was 6,660,159 shares at a total price of DKK 496 million.



Dividends

Given the current capital structure of the company, the Board of Directors will recommend to the annual general meeting on 26 April 2017 that no dividend be paid for the 2016 financial year. It should also be noted that, under the terms of H+H International A/S's current loan agreement with Danske Bank A/S, the Board of Directors is subject to an obligation to the effect that any proposed resolution concerning the distribution of dividends for a given financial year must not exceed 50% of the company's profit after tax in the financial year in question.

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

Investor relations policy

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

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

Relevant investor information is available on the company's website, www.HplusH.com. In 2016 the company held more than 25 investor meetings and published 13 company announcements. The company is covered by Danske Bank Markets and Handelsbanken Capital Markets.

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

Annual general meeting

The next annual general meeting will be held on 26 April 2017. The time and place will be announced in the notice of the annual general meeting published via a company announcement and on the company's website. The notice will be published no earlier than five weeks and no later than three weeks prior to the annual general meeting.

Documents for use at the annual general meeting will be made available on the company's website, www.HplusH.com, no later than three weeks before the meeting. Shareholder proposals for the agenda of the annual general meeting must be submitted no later than six weeks before the meeting (i.e. before 15 March 2017). Unless otherwise stated in the Danish Companies Act or the company's Articles of Association, resolutions on the amendment of the Articles of Association will be valid only if carried by at least two-thirds of the votes cast and of the voting share capital represented at the general meeting.

H+H shareholder information

Financial calendar 2017

17 March	Annual Report 2016
26 April	Annual General Meeting
18 May	Interim financial report Q1
17 Aug	Interim financial report H1
15 Nov	Interim financial report Q1-Q3

No. of shares: 10,790,019
Treasury shares: 70,228
Nominal value per share: DKK 10
Total nominal value: DKK 107,900,190

Solvency ratio:	23.3%
Earnings per share:	8.3

Board of Directors

The Board of Directors held eight meetings in 2016, while the Audit Committee held five, the Nomination Committee held one and the Remuneration Committee two.

Pursuant to the Articles of Association of H+H International A/S, the Board of Directors shall consist of four to eight members to be elected by the general meeting for a term that expires at the next annual general meeting. The Board of Directors' proposal of candidates is based upon the Board's competence and diversity profile published on the company's website.

Furthermore, the proposal is based upon the results of the self-evaluation process that the Board carried out during January and February 2017. The self-evaluation showed that the board members, both individually and collectively, have good insight in and understanding of the company's business, the sector and the current relevant risks and opportunities of the company as well as possess the relevant financial and commercial skills,

However, the Board finds it relevant to strengthen its insights into and competencies with regard to building material production, sales and marketing in Germany, since H+H's activities in Germany are of great importance not only due to the market potential, but also due to the fact that the H+H products produced in Germany are sold not only in Germany, but also exported to the Nordic countries and Benelux. Accordingly, the Board of Directors will not only propose re-election of the current five board members, but also seek election of a new board member, Mr. Volker Christmann, senior vice president, Insulation Central Europe at Rockwool International A/S, who has the sought after competencies within the German market.

The Board of Directors' remuneration consists of an annual fixed fee only. The members do not receive any type of incentive pay. The fee is determined for each financial year by the annual general meeting.

Kent Arentoft, Chairman

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

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

Indirectly holds 15,000 H+H shares via a company he controls, with a purchase of 5,000 shares in 2016.

Independent as defined in the Danish Recommendations on Corporate Governance.

Broad organisation and management experience in international companies in the building materials and contracting sector, in particular within strategy development and M&A transactions.

Other management positions and directorships
Chairman of the board of directors of Cembrit Group A/S / Cembrit Holding A/S and DSV Miljø Holding A/S plus 10 subsidiaries.

Member of the board of directors of Solix Group AB (Sweden).

Stewart Antony Baseley

Male. Born 1958.
British.
Executive Chairman, Home Builders Federation (UK).

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

Holds 10,000 H+H shares, with no changes in his holding in 2016.

Independent as defined in the Danish Recommendations on Corporate Governance.

Experience in the international housebuilding industry and the developer industry, particularly in the UK, as well as international management experience.

Other management positions and directorships
Chairman of Troy Homes Limited (UK).

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

Senior Advisor with regard to Central and Eastern Europe to Highlander Partners L.P. (USA).
Patron of Children with Special Needs Foundation (UK).

Pierre-Yves Jullien

Male. Born 1950.
French.
Professional board member.

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

Independent as defined in the Danish Recommendations on Corporate Governance.

Experience in management of a major global production company, including turnarounds and efficiency improvement as well as B-t-B sales.

Other management positions and directorships
Member of the board of directors of Saudi Arabian Packaging Industry W.L.L. (Saudi Arabia and & United Arab Emirates), Adviser to Al Suhaimi Holding (Saudi Arabia),

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

Henriette Schütze

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

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

Holds 531 H+H shares, with no changes in her holding in 2016.

Independent as defined in the Danish Recommendations on Corporate Governance.

Extensive financial management experience from international listed and unlisted companies, particularly management, strategy development, turnarounds, change management and productivity/efficiency improvements.

Other management positions and directorships
CEO, CFO, chairman or member of the board of directors of companies in the Nordic Tankers Group.

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

Søren Østergaard Sørensen

Male. Born 1958.
Danish.
Professional board member.

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

Independent as defined in the Danish Recommendations on Corporate Governance.

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

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

Deputy chairman of the board of directors of Eksport Kredit Finansiering A/S, Frese Holding A/S and three subsidiaries, and IAI Holding A/S and one subsidiary.

Member of the board of directors of AVK Holding A/S, Exodraft A/S, Hoyer Group A/S and Sanistål A/S.

Executive Board

Remuneration
The Executive Board's remuneration consists of a combination of:

- A fixed annual salary and pension contribution (if any).
- Performance-based one-year cash incentive scheme where the cash bonus earned depends on fulfilment of the set KPIs (i.e. financial KPIs + personal KPIs (financial or non-financial such as execution of certain projects (strategy activities, divestments, acquisitions etc.), and
- Performance-based three-year share based incentive scheme (currently a matching share programme where the participant may invest privately held H+H shares in the programme at a value of max. 10% of the participant's annual fixed salary, and the participant can then be granted up to a maximum of three H+H shares by the company (i.e. matching shares) for each privately held H+H share invested in the programme – the extent of matching shares earned depends on fulfilment of the set financial KPIs).

In addition, members of the Executive Board also receive work-related benefits in kind in accordance with normal market practices, including a company car or car allowance, free telephone, broadband at home, news subscriptions, certain insurances etc.

Michael Troensegaard Andersen

Male. Born 1961.
Danish
CEO since 2011.

Holds 15,000 H+H shares. Net 4,400 H+H shares were sold in 2016. All shares are invested in a matching share incentive programme.

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

1997 – 2004: Alto International A/S (now part of the Nilfisk Group). Executive positions within sales, marketing and general management.

Education
M.Sc. (Engineering) and a B.Comm. (Accounting).

Ian Lea Perkins

Male. Born 1965.
British.
CFO since 2014.
Member of the Executive Board since August 2016.

Holds 7,498 H+H shares. 6,383 H+H shares were purchased in 2016. Out of the said shares, 7,316 are invested in a matching share incentive programme.

Background
2014 – 2016: H+H International A/S, CFO

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

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

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

Income statement

Note	(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
2	Revenue	1,610,606	1,620,993	0	0
3, 16	Production costs	(1,205,822)	(1,210,744)	0	0
	Gross profit	**404,784**	**410,249**	**0**	**0**
3	Sales and distribution costs	(104,171)	(110,295)	0	0
3	Administrative costs	(100,570)	(121,607)	(37,530)	(37,348)
4	Other operating costs	(4,817)	(31,144)	0	0
5	Other operating income	18,422	85,216	37,976	28,906
	Profit/loss before depreciation, amortisation and financial items (EBITDA)	**213,648**	**232,419**	**446**	**(8,442)**
6	Depreciation and amortisation	(82,629)	(93,317)	(1,750)	(1,590)
7	Impairment losses	(5,620)	(8,733)	(62,776)	(4,000)
	Operating profit/loss (EBIT)	**125,399**	**130,369**	**(64,080)**	**(14,032)**
8	Financial income	2,647	1,451	17,677	16,200
9	Financial expenses	(24,172)	(38,319)	(14,813)	(76,550)
	Profit/loss from continuing operations before tax	**103,874**	**93,501**	**(61,216)**	**(74,382)**
10	Tax on profit from continuing operations	(7,968)	(35,107)	8,137	482
	Profit/loss for the year from continuing operations	**95,906**	**58,394**	**(53,079)**	**(73,900)**
24	Loss for the year from discontinued operations	(6,721)	(19,146)	0	0
	Profit/loss for the year	**89,185**	**39,248**	**(53,079)**	**(73,900)**

12	Earnings per share (EPS-Basic) (DKK)	8.30	3.71		
12	Diluted earnings per share (EPS-D) (DKK)	8.30	3.71		
12	Earnings per share from continuing operations (EPS-Basic) (DKK)	8.93	5.52		
12	Diluted earnings per share from continuing operations (EPS-D) (DKK)	8.93	5.52		

Statement of comprehensive income

Note	(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
	Profit/loss for the year	**89,185**	**39,248**	**(53,079)**	**(73,900)**
	Other comprehensive income:				
	Items that will not be reclassified subsequently to the income statement:				
	Actuarial losses and gains, see note 19	(93,286)	73,424	0	0
	Tax on actuarial losses and gains	15,587	(13,236)	0	0
		(77,699)	**60,188**	**0**	**0**
	Items that may be reclassified subsequently to the income statement:				
	Foreign exchange adjustments, foreign companies	25,370	(45,898)	0	0
	Tax on foreign exchange adjustments, foreign companies	(8,462)	8,085	0	0
		16,908	**(37,813)**	**0**	**0**
	Other comprehensive income after tax	**(60,791)**	**22,375**	**0**	**0**
	Total comprehensive income for the year	**28,394**	**61,623**	**(53,079)**	**(73,900)**

Balance sheet at 31 December 2016

Assets

Note	(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
	Goodwill	50,843	51,940	0	0
	Other intangible assets	4,230	2,668	51	1,766
13	**Intangible assets**	**55,073**	**54,608**	**51**	**1,766**
	Land and buildings	331,963	364,662	0	0
	Plant and machinery	327,906	361,366	0	0
	Fixtures and fittings, tools and equipment	93,732	85,030	0	35
	Property, plant and equipment under construction	65,792	30,903	0	0
13	**Property, plant and equipment**	**819,393**	**841,961**	**0**	**35**
14	Deferred tax assets	26,880	11,455	8,036	0
15	Equity investments in subsidiaries	0	0	751,852	814,083
	Receivables from subsidiaries	0	0	256,216	276,633
	Other non-current assets	**26,880**	**11,455**	**1,016,104**	**1,090,716**
	Total non-current assets	**901,346**	**908,024**	**1,016,155**	**1,092,517**
16	Inventories	182,439	172,943	0	0
17	Trade receivables	59,161	49,905	0	0
	Tax receivable	343	434	0	0
17	Other receivables	31,844	32,487	13,341	9,622
	Prepayments	5,116	6,164	0	0
	Cash	8,259	51,547	12	18
	Current assets	**287,162**	**313,480**	**13,353**	**9,640**
24	Assets held for sale	0	24,389	0	0
	Total current assets	**287,162**	**337,869**	**13,353**	**9,640**
	Total assets	**1,188,508**	**1,245,893**	**1,029,508**	**1,102,157**

Equity and liabilities

Note	(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
	Share capital	107,902	107,902	107,902	107,902
	Translation reserve	(227,179)	(244,087)	0	0
	Retained earnings	396,781	391,193	493,100	552,077
	Equity	**277,504**	**255,008**	**601,002**	**659,979**
19	Pension obligations	171,315	112,659	0	0
20	Provisions	24,000	24,830	31,300	28,000
14	Deferred tax liabilities	0	5,353	0	0
25	Deferred payment, acquisition of subsidiary	0	32,548	0	0
21	Credit institutions	394,920	496,629	306,220	335,878
	Non-current liabilities	**590,235**	**672,019**	**337,520**	**363,878**
	Trade payables	188,153	187,162	4,699	1,563
	Income tax	9,338	11,289	0	0
	Payables to subsidiaries	0	0	79,424	69,005
25	Deferred payment, acquisition of subsidiary	33,537	27,856	0	0
20	Provisions	9,970	15,993	0	0
	Other payables	79,771	76,566	6,863	7,732
	Current liabilities	**320,769**	**318,866**	**90,986**	**78,300**
24	Liabilities relating to assets held for sale	0	0	0	0
	Total current liabilities	**320,769**	**318,866**	**90,986**	**78,300**
	Total liabilities	**911,004**	**990,885**	**428,506**	**442,178**
	Total equity and liabilities	**1,188,508**	**1,245,893**	**1,029,508**	**1,102,157**

Cash flow statement

		Group		Parent company	
Note	(DKK '000)	2016	2015	2016	2015
	Operating profit/loss	125.399	130.369	(64.080)	(14.032)
	Financial items, paid	(20.838)	(21.335)	4.677	(3.409)
	Depreciation, amortisation and impairment losses	88.250	102.050	64.526	5.590
	Gain on disposal of property, plant and equipment	(13.097)	(26.942)	(4.476)	0
	Other adjustments	843	3.406	(339)	1.463
	Change in inventories	(9.496)	30.341	0	0
	Change in receivables	(8.501)	(16.583)	(3.719)	(1.021)
	Change in trade payables and other payables	23.120	18.020	2.267	(2.827)
	Negative goodwill - non-cash effect	0	(56.271)	0	0
	Change in provisions	(21.254)	(28.716)	0	0
	Income tax paid	(21.368)	(22.267)	0	0
	Operating activities	**143.058**	**112.072**	**(1.144)**	**(14.236)**
	Sale of property, plant and equipment	39.846	37.189	4.476	0
	Capital contributions to subsidiaries	0	0	(545)	(6.896)
25	Acquisition of subsidiaries	(31.497)	(30.416)	0	0
	Acquisition of property, plant and equipment and intangible assets	(83.330)	(60.655)	0	(128)
	Investing activities	**(74.981)**	**(53.882)**	**3.931**	**(7.024)**
	Free cash flow	**68.077**	**58.190**	**2.787**	**(21.260)**

		Group		Parent company	
Note	(DKK '000)	2016	2015	2016	2015
	Change in intra-group balances	0	0	30,938	(33,389)
	Dividend from subsidiaries	0	0	1,487	2,239
	Raising of long-term debt	0	0	(29,658)	12,198
	Reduction of long-term debt	(99,362)	(110,975)	0	0
	Capital increase	0	42,024	0	42,024
	Acquisition of treasury shares	(5,560)	(1,814)	(5,560)	(1,814)
	Financing activities	**(104,922)**	**(70,765)**	**(2,793)**	**21,258**
24	**Cash flow from discontinued operations**	**(4,594)**	**(12,105)**	**0**	**0**
	Cash flow for the year	**(41,438)**	**(24,680)**	**(6)**	**(2)**
	Cash and cash equivalents at 1 January	51,547	72,168	18	20
	Foreign exchange adjustments of cash and cash equivalents	(1,850)	4,059	0	0
	Cash and cash equivalents at 31 December	**8,259**	**51,547**	**12**	**18**
	Cash and cash equivalents at 31 December, continuing operations	8,259	51,547		
	Cash and cash equivalents at 31 December, discontinued operations	0	0		
		8,259	**51,547**		

Statement of changes in equity

(DKK '000)	Group			
	Share capital	Translation reserve	Retained earnings	Total
Equity at 1 January 2015	**98,100**	**(206,272)**	**259,884**	**151,712**
Profit/loss for the year	0	0	39,248	39,248
Other comprehensive income:				
Foreign exchange adjustments, subsidiaries	0	(45,900)	0	(45,900)
Actuarial gains/losses on pension plans	0	0	73,424	73,424
Tax on other comprehensive income	0	8,085	(13,236)	(5,151)
Net gains recognised directly in equity	**0**	**(37,815)**	**60,188**	**22,373**
Total comprehensive income	**0**	**(37,815)**	**99,436**	**61,621**
Issue of ordinary shares (980,019 shares)	9,802	0	35,279	45,081
Expenses in connection with share issue	0	0	(3,055)	(3,055)
Acquisition of treasury shares	0	0	(1,814)	(1,814)
Share-based payment	0	0	1,463	1,463
Total changes in equity	**9,802**	**(37,815)**	**131,309**	**103,296**
Equity at 31 December 2015	**107,902**	**(244,087)**	**391,193**	**255,008**
Profit/loss for the year	0	0	89,185	89,185
Other comprehensive income:				
Foreign exchange adjustments, subsidiaries	0	25,370	0	25,370
Actuarial gains/losses on pension plans	0	0	(93,286)	(93,286)
Tax on other comprehensive income	0	(8,462)	15,587	7,125
Net gains recognised directly in equity	**0**	**16,908**	**(77,699)**	**(60,791)**
Total comprehensive income	**0**	**16,908**	**11,486**	**28,394**
Acquisition of treasury shares	0	0	(5,560)	(5,560)
Share-based payment	0	0	(338)	(338)
Total changes in equity	**0**	**16,908**	**5,588**	**22,496**
Equity at 31 December 2016	**107,902**	**(227,179)**	**396,781**	**277,504**

(DKK '000)	Parent company			
	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2015	**98,100**	**594,104**	**0**	**692,204**
Profit/loss for the year	0	(73,900)	0	(73,900)
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**(73,900)**	**0**	**(73,900)**
Issue of ordinary shares (980,019 shares)	9,802	35,279	0	45,081
Expenses in connection with share issue	0	(3,055)	0	(3,055)
Acquisition of treasury shares	0	(1,814)	0	(1,814)
Share-based payment	0	1,463	0	1,463
Total changes in equity	**9,802**	**(42,027)**	**0**	**(32,225)**
Equity at 31 December 2015	**107,902**	**552,077**	**0**	**659,979**
Profit/loss for the year	0	(53,079)	0	(53,079)
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**(53,079)**	**0**	**(53,079)**
Acquisition of treasury shares	0	(5,560)	0	(5,560)
Share-based payment	0	(338)	0	(338)
Total changes in equity	**0**	**(58,977)**	**0**	**(58,977)**
Equity at 31 December 2016	**107,902**	**493,100**	**0**	**601,002**

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Notes - Financial statements

1 General accounting policies

The annual report for the period 1 January - 31 December 2016 comprises both the consolidated financial statements of H+H International A/S and its subsidiaries (the H+H Group) and separate financial statements for the parent company.

H+H International A/S is a public limited company registered in Denmark. The annual report of H+H International A/S for 2016 has been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and additional Danish disclosure requirements for annual reports of listed companies.

The Board of Directors and Executive Board discussed and approved the annual report of H+H International A/S for 2016 on 17 March 2017. The annual report will be submitted to the shareholders of H+H International A/S for adoption at the annual general meeting on 26 April 2017.

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, recognised derivatives are measured at fair value, and 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 selling costs.

The balance sheet item provisions for the comparative figures 2015 has been restated. Neither profit/loss or equity has been affected. Provisions of DKK 36.8 million previously recognised as other payables has been moved to current provisions with DKK 16.0 million and to non-current provisions with DKK 20.8 million. Consequently, the key figures, cash flow and notes has been updated accordingly.

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

The accounting policies applied to the consolidated financial statements as a whole are described below, while the remaining accounting policies are described in connection with the notes to which they relate. The aim is to aid a better understanding of the individual items. The descriptions of accounting policies in the notes form part of the overall description of accounting policies.

Adoption of new and revised IFRSs
H+H International A/S has adopted the new or revised and amended International Financial Reporting Standards (IFRSs) issued by IASB and endorsed by the EU effective for the financial year 2016. Based on an analysis carried out by H+H International A/S, the application of the new IFRSs has not had a material impact on neither the consolidated financial statements or the separate financial statements for the parent company in 2016, and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs.

New IFRSs which have been issued but not yet become effective
In addition to the above, IASB has issued a number of new or amended standards and interpretations (IFRSs), some of which have been endorsed by the EU but not yet come into effect. H+H International A/S has assessed the impact of these IFRSs that are not yet effective. None of the new standards or interpretations are expected to have a material impact on H+H International A/S, except for IFRS 16 Leases, which was issued in January 2016. The standard will replace IAS 17 Leases currently in force and is effective for annual periods beginning on or after 1 January 2019. The new standard is expected to have an impact on H+H International A/S as a lessee, as all leases (except for short-term leases and leases of low-value assets) have to be recognized in the balance sheet as a right-of-use asset and lease liability measured at the present value of future lease payments. The right-of-use asset is subsequently depreciated over the lease term in a similar way to other assets such as property, plant and equipment, and interest on the lease liability is calculated in a similar way to finance leases under IAS 17 Leases. Consequently, the change will also impact the presentation of the income statement and cash flow statement. H+H International A/S is in the process of assessing the impact on future financial statements. Preliminary analysis of the implementation of IFRS 16 has shown an expected increase of total assets by approximately 7.5%. The implementation of IFRS 16 will not have a material effect on profit/loss. The effects of implementing IFRS 9 and IFRS 15 are still being analysed, but implementation is not expected to have a material effect on the consolidated financial statements.

Description of accounting policies
Consolidated financial statements
The consolidated financial statements include the parent company H+H International A/S and subsidiaries in which H+H International A/S has control of the subsidiary's financial and operating policies so as to obtain returns or other benefits from the subsidiary's activities. Control exists when H+H International A/S holds or has the ability to exercise, directly or indirectly, more than 50% of the voting rights or otherwise has control of the subsidiary in question.

The consolidated financial statements have been prepared by aggregation of the parent company's and the individual subsidiaries' financial statements, applying the H+H Group's accounting policies. Intra-group income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains arising from intra-group transactions are eliminated on consolidation.

Equity investments in subsidiaries are offset against the proportionate share of the fair value of the subsidiaries' identifiable net assets and recognised contingent liabilities at the date of acquisition. Accounting items of subsidiaries are fully recognised in the consolidated financial statements.

Foreign currency translation
For each entity included in the consolidated financial statements, a functional currency has been determined. The functional currency of an entity is the currency of the primary economic environment in which the entity operates. Transactions in currencies other than the functional currency are accounted for as transactions in foreign currencies.

Notes - Financial statements

1 General accounting policies - continued

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated into the functional currency at the exchange rates at the balance sheet date. The difference between the exchange rate at the balance sheet date and the exchange rate at the date on which the receivable or payable arose or the exchange rate used in the last annual report is recognised in the income statement as financial income or financial expenses.

On recognition in the consolidated financial statements of foreign entities with a functional currency other than DKK, income statements are translated at the exchange rates at the transaction date and balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for each month is used as the exchange rate at the transaction date to the extent that this does not give a significantly different view. Foreign exchange differences arising on translation of the opening equity of foreign entities at the exchange rates at the balance sheet date, and on translation of income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date, are recognised as other comprehensive income.

Foreign exchange adjustments of balances considered part of the overall net investment in entities with a functional currency other than DKK are recognised in the consolidated financial statements as other comprehensive income. Correspondingly, foreign exchange gains and losses on that part of loans and derivative financial instruments entered into to hedge the net investment in such entities which effectively hedges against corresponding exchange gains/losses on the net investment in the entity are recognised as other comprehensive income.

On the complete or partial disposal of a foreign operation, or on the repayment of balances that are considered part of the net investment, the share of the cumulative exchange adjustments that is recognised in equity and attributable to this is recognised in the income statement when the gain or loss on disposal is recognised. On the disposal of partially owned foreign subsidiaries, the part of the translation reserve attributable to non-controlling interests is not transferred to the income statement.

On the partial disposal of foreign subsidiaries without loss of control, a proportionate share of the translation reserve is transferred from the parent company shareholders' share of equity to non-controlling interests' share of equity.

The repayment of balances that are considered part of the net investment is not itself considered to constitute partial disposal of the subsidiary.

Cash flow statement
The cash flow statement shows the cash flows for the year, broken down by operating, investing and financing activities, and the year's change in cash and cash equivalents as well as the cash and cash equivalents at the beginning and end of the year.

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

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

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

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

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

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

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Notes - Financial statements

1 General accounting policies - continued

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

Other financial ratios have been prepared in accordance with the Danish Finance Society's "Recommendations & Financial Ratios 2015".

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

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

Invested capital is calculated as net working capital plus tangible assets and intangible assets excluding goodwill. Net working capital is defined as inventories, trade receivables, other receivables, prepayments deducted by trade payables and other payables.

Critical accounting estimates and judgements
Determining the carrying amounts of some assets and liabilities requires management to make judgements, estimates and assumptions concerning future events. The estimates and assumptions made are based on historical experience and other factors that are believed by management to be sound under the circumstances but that, by their nature, are uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unforeseen events or circumstances may occur. Moreover, the H+H Group is subject to risks and uncertainties that may lead to the actual outcomes differing from these estimates. It may be necessary to change estimates made previously as a result of changes in the factors on which these were based or as a result of new knowledge or subsequent events.

Critical accounting estimates made in connection with the financial reporting are set out in the following notes:

- Impairment testing of intangible assets, note 13
- Impairment testing of property, plant and equipment, note 13
- Useful lives of production assets, note 13
- Recovery of deferred tax assets, note 14
- Investments in subsidiaries, note 15
- Valuation of inventories, note 16
- Valuation of receivables, note 17
- Defined benefit pension plans, note 19
- Assets held for sale and discontinued operations, note 24
- Acquisition and divestment of subsidiaries and activities, note 25

Notes - Income statement

2 Segment information

	Group							
(DKK million)	2016							
	Western Europe			Eastern Europe			Total	
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Dis-continued operations*	Reporting segments
Revenue, external	1,024.0	236.2	1,260.2	350.4	0.0	350.4	0.0	1,610.6
Revenue, internal	109.5	0.0	109.5	21.9	0.0	21.9	0.0	131.4
EBITDA	171.2	15.2	186.4	29.2	(0.3)	28.9	(5.0)	210.3
Depreciation	(48.1)	(0.6)	(48.7)	(32.2)	0.0	(32.2)	0.0	(80.9)
EBITA	123.1	14.6	137.7	(3.0)	(0.3)	(3.3)	(5.0)	129.4
Impairment losses	0.0	0.0	0.0	(5.6)	0.0	(5.6)	0.0	(5.6)
Operating profit (EBIT)	123.1	14.6	137.7	(8.6)	(0.3)	(8.9)	(5.0)	123.8
Financial income	0.2	0.4	0.6	1.5	0.0	1.5	0.0	2.1
Financial expenses	(9.3)	(0.9)	(10.2)	(6.3)	0.0	(6.3)	(1.7)	(18.2)
Profit/loss before tax**	114.0	14.1	128.1	(13.4)	(0.3)	(13.7)	(6.7)	107.7
Non-current assets	447.3	5.5	452.8	448.1	0.4	448.5	0.0	901.3
Investments in intangible assets and property, plant and equipment	63.1	0.9	64.0	19.3	0.0	19.3	0.0	83.3
Investments in subsidaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets	971.3	67.9	1,039.2	541.0	0.4	541.4	0.4	1,581.0
Equity	228.9	14.3	243.2	176.0	(43.3)	132.7	(67.5)	308.4
Liabilities	742.4	53.6	796.0	365.0	43.7	408.7	67.9	1,272.6
Average full-time equivalent staff	431	46	477	551	0	551	1	1,029

	Group							
(DKK million)	2015							
	Western Europe			Eastern Europe			Total	
	Production companies	Sales companies	Western Europe, total	Production companies	Sales companies	Eastern Europe, total	Dis-continued operations*	Reporting segments
Revenue, external	1,065.2	207.2	1,272.4	350.7	0.0	350.7	2.1	1,625.2
Revenue, internal	101.9	0.5	102.4	8.0	0.0	8.0	2.0	112.4
EBITDA	171.2	(1.9)	169.3	71.9	(0.4)	71.5	(12.0)	228.8
Depreciation	(53.8)	(0.7)	(54.5)	(37.2)	0.0	(37.2)	0.0	(91.7)
EBITA	117.3	(2.6)	114.7	34.7	(0.4)	34.3	(17.5)	131.5
Impairment losses	0.0	0.0	0.0	(8.7)	0.0	(8.7)	(5.5)	(14.2)
Operating profit (EBIT)	117.3	(2.6)	114.7	26.0	(0.4)	25.6	(17.5)	122.8
Financial income	12.4	0.8	13.2	0.4	0.0	0.4	0.0	13.6
Financial expenses	(30.0)	(1.3)	(31.3)	(16.4)	0.0	(16.4)	(1.7)	(49.4)
Profit/loss before tax**	99.7	(3.1)	96.6	10.0	(0.4)	9.6	(19.2)	87.0
Non-current assets	443.8	5.6	449.4	470.5	8.7	479.2	0.0	928.6
Investments in intangible assets and property, plant and equipment	41.1	1.5	42.6	17.9	0.0	17.9	0.0	60.5
Investments in subsidarie	0.0	0.0	0.0	(30.6)	0.0	(30.6)	0.0	(30.6)
Assets	950.9	44.5	995.4	569.6	8.7	578.3	1.0	1,574.7
Equity	184.8	7.4	192.2	169.5	(41.7)	127.8	(55.0)	265.0
Liabilities	766.0	37.1	803.1	400.2	50.4	450.6	56.0	1,309.7
Average full-time equivalent staff	428	46	474.0	545	0.0	545.0	3	1,022

* See note 24.

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

Notes - Income statement

2 Segment information - continued

	Group	
(DKK million)	2016	2015
Segment revenue for the reporting segments	1,742.0	1,737.6
Elimination of inter-segment sales	(131.4)	(112.4)
Revenue for discontinued operations	0.0	(4.2)
Revenue	**1,610.6**	**1,621.0**
Segment profit/loss before tax for reporting segments	107.7	87.0
Loss from discontinued operations	6.7	19.1
Non-allocated Group expenses, central functions	(10.5)	(12.6)
Profit/loss before tax	**103.9**	**93.5**
Total assets for reporting segments	1,580.6	1,574.7
Other non-allocated assets, eliminations and similar	(392.5)	(327.8)
Assets relating to discontinued operations	0.4	(1.0)
Assets	**1,188.5**	**1,245.9**
Total liabilities for reporting segments	1,340.5	1,309.7
Other non-allocated obligations, eliminations and similar	(361.6)	(262.7)
Liabilities relating to discontinued operations	(67.9)	(56.1)
Liabilities	**911.0**	**990.9**

Revenue in Denmark was DKK 150,914 thousand in 2016 (2015: DKK 116,080 thousand).

Non-current assets in Denmark at year-end 2016 amounted to DKK 4,465 thousand (2015: DKK 4,358 thousand).

Key customers

One customer in the United Kingdom represented approx. 27% of the H+H Group's total revenue in 2016 (2015: approx. 34%). The following countries in the Group represent more than 10% of revenue or non-current assets:

	Group			
(DKK million)	2016		2015	
	Revenue	Non-current assets	Revenue	Non-current assets
UK	758.8	175.5	790.8	165.6
Germany	265.1	265.9	274.3	278.1
Poland	258.8	311.1	244.3	333.0
Russia	91.3	140.8	105.7	123.8
Other countries and eliminations	236.6	8.0	205.9	7.5
	1,610.6	**901.3**	**1,621.0**	**908.0**

When presenting information on geographical areas, information on revenue is based on the legal entity. All revenue relates to sales of goods.

Accounting policies

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

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

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

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

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

Notes - Income statement

3 Staff costs

	Group		Parent company	
(DKK '000)	2016	2015	2016	2015
Wages and salaries	267,400	275,020	19,401	18,254
Defined contribution plans, see note 19	9,286	10,942	0	0
Share-based payment	1,279	1,463	1,279	1,463
Remuneration to the Board of Directors	1,800	1,800	1,800	1,800
Other staff costs	41,849	42,313	120	125
	321,614	**331,538**	**22,600**	**21,642**
Staff costs are recognised as follows:				
Production costs	189,527	188,293	0	0
Sales and distribution costs	76,234	76,512	0	0
Administrative costs	55,853	66,733	22,600	21,642
	321,614	**331,538**	**22,600**	**21,642**
Average full-time equivalent staff	**1,041**	**1,034**	**12**	**12**
Remuneration to the Executive Board:				
Michael Troensegaard Andersen (CEO):				
Salary	3,258	3,117	3,258	3,117
Bonus	1,183	1,447	1,183	1,447
Share-based payment	837	728	837	728
	5,278	**5,292**	**5,278**	**5,292**
Ian Lea Perkins (CFO) (member since 18 August 2016):				
Salary	748	0	551	0
Bonus	208	0	208	0
Share-based payment	161	0	161	0
Pension	104	0	0	0
	1,221	**0**	**920**	**0**
Total	**6,499**	**5,292**	**6,198**	**5,292**
Remuneration to non-registered members of executive management:				
Salary	3,966	5,162	3,720	3,417
Bonus	1,008	1,821	1,008	1,821
Share-based payment	219	299	219	299
Pension	157	282	0	0
Total	**5,350**	**7,564**	**4,947**	**5,537**

In 2016, Group executive management consisted of CEO Michael Troensegaard Andersen, CFO Ian Lea Perkins and two other executives.

Guidelines for remuneration to the Board of Directors and Executive Board

The annual general meeting has adopted the existing "*Guidelines for remuneration to the Board of Directors and Executive Board,* including general guidelines for incentive scheme for the Executive Board". All remuneration for 2016 has been determined in accordance with these guidelines. The Board of Directors does not receive any form of incentive payment and remuneration to the Executive Board consists of a combination of fixed annual salary and a performance-based element comprising a short-term and a long-term incentive plan.

The maximum amount of incentive remuneration (short-term and long-term) that can be achieved in accordance with the annual pool of incentive programmes, valued at the start of the vesting period for the annual pool, must not exceed 80% of the executive officer's fixed annual salary at the start of the vesting period, based on valuation pursuant to IFRS.

Board of Directors

The Board of Directors comprises five members. The annual general meeting on 14 April 2016 approved remuneration to the Chairman of the Board for 2016 of DKK 600,000 (2015: DKK 600,000) and remuneration to ordinary board members of DKK 300,000 (2015: DKK 300,000). Remuneration to members of the Board of Directors also covers committee work. The Board's committees currently comprise an Audit Committee, a Nomination Committee and a Remuneration Committee.

Executive Board

The two members of the Executive Board (i.e. the CEO and the CFO) may resign with six months' notice. The company may dismiss a member of the Executive Board with 12 months' notice. Under normal circumstances, if the company gives notice to the CEO without reason, the CEO is entitled to a termination benefit equivalent to 12 months' fixed salary. However, if a shareholder acquires the majority of votes in the company as a result of a compulsory or voluntary offer in accordance with the rules in the Danish Securities Trading Act, or if the company's operations are transferred to a new owner, the period of notice the CEO must give the company if the CEO wants to resign is shortened to three months for a period of two years from the time of takeover. In a corresponding takeover situation where the company dismisses the CEO, the CEO will have a claim of twice the normal termination benefit, equivalent to 24 months' fixed salary.

Cash-based incentive schemes

Members of the Executive Board have the opportunity to earn an annual cash bonus. This is based on performance in relation to the achievement of defined financial ratios for the company (key performance indicators such as EBIT, EBITDA, PBT, EPS, ROIC, increase in share price etc.) and/or defined individual performance criteria, economic or otherwise (execution of strategy, restructuring plans, R&D projects, lean projects etc.). The bonus is therefore not guaranteed. In the case of termination of employment, the member is entitled to a pro rata bonus up to the date of termination if the performance achieved by year-end means that a cash bonus has been earned.

Notes - Income statement

3 Staff costs - continued

Share-based incentive scheme

Matching share programme

In March 2016, a matching share programme was launched for the Executive Board and certain key employees in the Group. The Executive Board and key employees invested a total of 11,721 H+H shares into the matching share programme initiated in 2016, which will trigger allocation of a further 35,163 H+H shares in April 2019 if all the vesting criteria are fulfilled.

The vesting criteria relate to continuous employment in the H+H Group during the vesting period, the Group's operating profit and other financial targets. The value of the programme at inception in April 2016 was estimated at DKK 2.7 million and will be recognised as staff costs until the expiry of the vesting period in March 2019.

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

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

The value of the 2013 programme at inception was DKK 1.7 million, which is recognised as staff costs until the expiry of the vesting period in March 2016. An adjustment related to the resignation of one participant has been made. Based on the financial statements for 2015, 46,983 matching shares were vested in March 2016 under the 2013 programme, equal to the estimated three matching shares per investment share.

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

The value of the 2015 programme at inception was DKK 2.5 million, which is recognised as staff costs until the expiry of the vesting period in March 2018. It was assessed during 2016 that the programme could trigger a maximum of three matching shares per investment share. An adjustment related to the resignation of two participants has been made. Based on the financial statement for 2016, 31,755 matching shares are estimated to be granted in March 2018 under the 2015 programme, equal to the estimated three matching shares per investment share.

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

In November 2015, the Board of Directors decided that the company will hedge part of the future grant of shares. Consequently, the company bought 24,000 shares in November 2015 and 71,500 shares between March and June 2016.

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

(DKK '000)	1 January 2016	Additions or sold/settled during the year	31 December 2016	Market value*
Board of Directors:				
Kent Arentoft (indirect ownership)	10.000	5.000	15.000	1.133
Stewart Antony Baseley	10.000	0	10.000	755
Pierre-Yves Jullien	0	0	0	0
Henriette Schütze	531	0	531	40
Søren Østergaard Sørensen	0	0	0	0
	20.531	5.000	25.531	1.928
Executive Board:				
Michael Troensegaard Andersen	19.400	(4.400)	15.000	1.133
Ian Lea Perkins	4.684	2.814	7.498	566
Total	**44.615**	**3.414**	**48.029**	**3.626**

*Calculation of the market value is based on the quoted share price of DKK 75.50 at 31 December 2016

Accounting policies

The H+H Group's incentive schemes comprise a matching share programme for the Executive Board and certain key employees in the Group.

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

On initial recognition of share options and shares, the number of options and shares expected to vest is estimated, cf. the service condition described. The figure initially recognised is subsequently adjusted for changes in the estimate of the number of options and shares expected to vest, so that the total recognition is based on the actual number of vested options and shares.

The fair value of options is estimated using an option-pricing model. The calculation takes account of the terms and conditions attached to the share options and shares granted.

Notes - Income statement

4 Other operating costs

(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Exiting Westbury land lease and other costs related to Westbury	142	10,783	0	0
Acquisition-related costs, Grupa Prefabet S.A.	3,779	19,760	0	0
Other	896	601	0	0
Total	**4,817**	**31,144**	**0**	**0**

Accounting policies

Other operating costs comprise items secondary to the entities' activities such as restructuring costs, losses on disposal of property, plant and equipment, and losses related to divestment of subsidiaries and activities and onerous contract

5 Other operating income

(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Management fee	0	0	33,500	28,025
Negative goodwill related to acquisition of Grupa Prefabet S.A.	0	56,271	0	0
Gain on disposal of property, plant and equipment	13,097	26,942	4,476	881
Rental income	3,238	858	0	0
Other	2,087	1,145	0	0
Total	**18,422**	**85,216**	**37,976**	**28,906**

Accounting policies

Other operating income comprises items secondary to the entities' activities such as management fee, rental income, gains on disposal of property, plant and equipment, refund of energy tax and gains related to divestment of subsidiaries and activities. Please see note 25 for further information on the negative goodwill related to the acquisition of Grupa Prefabet.

6 Depreciation and amortisation

(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Other intangible assets	2,290	2,782	1,715	1,514
Land and buildings	18,928	19,760	0	0
Plant and machinery	49,947	57,850	0	0
Fixtures and fittings, tools and equipment	11,464	12,925	35	76
Total	**82,629**	**93,317**	**1,750**	**1,590**

7 Impairment losses

(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Land and buildings	5,620	8,733	0	0
Write-down of equity investments	0	0	62,776	4,000
Impairment loss relating to goodwill in Poland	0	0	0	0
Total	**5,620**	**8,733**	**62,776**	**4,000**

The impairment of DKK 5.6 million in 2016 is related to land and buildings at Adamowice in Poland. The impairment of DKK 8.7 million in 2015 related to land and buildings at Gorzkowice in Poland and partly at Most in the Czech Republic.

The write-down of equity investments in the parent company in 2016 of DKK 62.8 million relates to OOOH+H (Russia). The write-down of equity investments in the parent company in 2015 of DKK 4.0 million relates to H+H Finland Oy; please see note 15 for further information.

8 Financial income

(DKK '000)	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Interest income	101	159	0	0
Interest income from subsidiaries	0	0	13,499	13,961
Exchange rate adjustments	1,402	1,205	2,691	0
Dividend from subsidiary	0	0	1,487	2,239
Other financial income	1,144	87	0	0
Total	**2,647**	**1,451**	**17,677**	**16,200**

Notes - Income statement

8 Financial income - continued

Accounting policies
Financial income comprises interest income, capital gains, transactions denominated in foreign currencies, amortisation of financial assets, and surcharges and allowances under the tax prepayment scheme etc.

Dividends from equity investments in subsidiaries are credited to the parent company's income statement in the financial year in which they are declared.

9 Financial expenses

	Group		Parent company	
(DKK '000)	**2016**	**2015**	**2016**	**2015**
Interest expenses	9,606	21,494	6,034	11,218
Interest expenses to subsidiaries	0	0	2,752	2,776
Interest on financial instruments	9,606	21,494	8,786	13,994
Exchange rate adjustments relating to loans to subsidiaries	0	0	0	2,420
Other exchange rate adjustments	2,089	1,439	1,542	0
Write-down of intra-group debt	0	0	3,300	59,180
Financial expenses relating to pension plans; see note 19	3,401	6,595	0	0
Other financial expenses	9,076	8,791	1,185	956
Total	**24,172**	**38,319**	**14,813**	**76,550**

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

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

10 Tax

	Group		Parent company	
(DKK '000)	**2016**	**2015**	**2016**	**2015**
Tax on profit from continuing operations	7,968	35,107	(8,137)	(482)
Tax on other comprehensive income	(7,126)	5,151	0	0
Total	**842**	**40,258**	**(8,137)**	**(482)**
Total tax can be broken down as follows:				
Current tax for the year	22,652	17,195	(101)	(2,246)
Adjustment relating to changes in tax rate	(703)	2,616	0	0
Adjustment of deferred tax	(8,166)	8,807	843	386
Change in valuation of tax assets	(10,484)	12,693	(8,879)	1,378
Prior-year adjustments	(2,457)	(1,053)	0	0
Total	**842**	**40,258**	**(8,137)**	**(482)**
Current joint taxation contribution for the year	**0**	**0**	**0**	**0**
Tax on profit from continuing operations can be broken down as follows:				
Calculated 22.0% (2015: 23.5%) tax on income from ordinary activities	21,373	19,725	1,069	(9,960)
Less tax in foreign Group entities compared with 22.0% rate (2015: 23.5%)	(1,982)	(4,614)	0	0
Tax effect of:				
Change in valuation of tax assets	(13,292)	(1,831)	(8,879)	2,151
Other adjustments	(1,053)	6,319	0	0
Non-deductible expenses/non taxable income	2,922	12,019	(327)	0
Non-deductible losses/non taxable gains related to investments in subsidaries	0	3,489	0	7,327
Total	**7,968**	**35,107**	**(8,137)**	**(482)**

Accounting policies
Tax on profit comprises current tax and changes in deferred tax for the year. The portion that relates to profit for the year is recognised in the income statement, and the portion that can be attributed to items in other comprehensive income or directly in equity is recognised in other comprehensive income or directly in equity.

H+H International A/S is taxed jointly with all its Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed companies in proportion to their taxable income. Subsidiaries that utilise tax losses in other subsidiaries pay joint taxation contributions to the parent company

Notes - Income statement

10 Tax - continued

equivalent to the tax base of the utilised losses, while subsidiaries with tax losses that are utilised by other subsidiaries receive joint taxation contributions from the parent company equivalent to the tax base of the tax losses utilised (full absorption). The jointly taxed companies are taxed under the tax prepayment scheme.

Where the H+H Group receives a tax deduction in the calculation of taxable income in Denmark or abroad as a result of share-based payment schemes, the tax effect of these schemes is recognised in tax on profit. If the total deduction exceeds the total remuneration expense, the tax effect of the excess deduction is recognised directly in equity.

The parent company is the administration company for the jointly taxed Danish companies. Pursuant to the rules on this contained in the Danish Corporation Tax Act, all companies that are jointly taxed are thus liable to withhold tax at source on interest, royalties and dividends for the jointly taxed companies for contingent liabilities. The Group's Danish companies are further jointly and severally liable for joint registration of VAT.

11 Income statement classified by function

It is Group policy to prepare the income statement based on an adapted classification of costs by function in order to show earnings before depreciation, amortisation and financial items (EBITDA). Depreciation, amortisation and impairment of property, plant and equipment and intangible assets are therefore classified by function and presented on separate lines.

The table below shows an extract of the income statement adapted to show depreciation, amortisation and impairment classified by function:

	Group		Parent company	
(DKK '000)	**2016**	**2015**	**2016**	**2015**
Revenue	1,610,606	1,620,993	0	0
Production costs	(1,278,604)	(1,296,432)	0	0
Gross profit including depreciation and amortisation	**332,002**	**324,561**	**0**	**0**
Sales and distribution costs	(105,076)	(117,827)	0	0
Administrative costs	(115,132)	(130,437)	(102,056)	(42,938)
Other operating costs	(4,817)	(31,144)	0	0
Other operating income	18,422	85,216	37,976	28,906
Operating profit/loss (EBIT)	**125,399**	**130,369**	**(64,080)**	**(14,032)**
Depreciation, amortisation and impairment comprise:				
Amortisation of intangible assets	1,865	2,783	1,715	1,514
Write-down of intangible assets	0	0	0	0
Depreciation of property, plant and equipment	80,764	90,534	35	76
Write-down of property, plant and equipment	5,620	8,733	0	0
Write-down of equity investments	0	0	62,776	4,000
Total	**88,249**	**102,050**	**64,526**	**5,590**
Depreciation, amortisation and impairment are allocated to:				
Production costs	72,782	85,688	0	0
Sales and distribution costs	905	7,532	0	0
Administrative costs	14,562	8,830	64,526	5,590
Total	**88,249**	**102,050**	**64,526**	**5,590**

Accounting policies

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

Production costs comprise costs incurred in generating the revenue for the year. The trading entities recognise cost of sales and the producing entities recognise production costs, relating to revenue for the year. This includes the direct and indirect cost of raw materials and consumables, and wages and salaries.

Notes - Income statement

11 Income statement classified by function - continued

Sales and distribution costs include costs of distribution of goods sold during the year as well as marketing costs etc. This includes costs of sales personnel, and advertising and exhibition costs. Administrative costs include costs incurred during the year for management and administration, including costs for administrative staff, office premises and office expenses. Administrative costs also include impairment of trade receivables.

12 Earnings per share (EPS)

	Group	
	2016	2015
Average number of shares	10,790,190	10,577,905
Average number of treasury shares	(51,192)	(5,203)
Average number of outstanding shares	10,738,998	10,572,702
Dilution from share options	0	0
Average number of outstanding shares, diluted	**10,738,998**	**10,572,702**
Profit/loss for the year (DKK '000)	89,185	39,248
Shareholders in H+H International A/S (DKK '000)	**89,185**	**39,248**
Earnings per share (EPS) (DKK)	8.30	3.71
Diluted earnings per share (EPS-D) (DKK)	8.30	3.71

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

Earnings per share from continuing and discontinued operations respectively are calculated on the basis of the equivalent key figures used to calculate earnings per share.

(DKK '000)	2016	2015
Profit/loss from discontinued operations	(6,721)	(19,146)
Profit/loss from continuing operations	95,906	58,394
Profit/loss for the year	**89,185**	**39,248**

Notes - Balance sheet

13 Intangible assets and property, plant and equipment

	Parent company			
(DKK '000)	2016		2015	
	Other intangible assets	Fixtures and fittings, tools and equipment	Other intangible assets	Fixtures and fittings, tools and equipment
Total cost at 1 January	7,396	769	7,268	769
Additions during the year	0	0	128	0
Disposals during the year	0	(304)	0	0
Total cost at 31 December	**7,396**	**465**	**7,396**	**769**
Total depreciation and amortisation at 1 January	(5,630)	(734)	(4,116)	(658)
Depreciation and amortisation of disposals	0	304	0	0
Depreciation and amortisation for the year	(1,715)	(35)	(1,514)	(76)
Total depreciation and amortisation at 31 December	**(7,345)**	**(465)**	**(5,630)**	**(734)**
Carrying amount at 31 December	**51**	**0**	**1,766**	**35**

Notes - Balance sheet

13 Intangible assets and property, plant and equipment - continued

Group (DKK '000) 2016	Goodwill	Other intangible assets	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under con-struction
Total cost at 1 January 2016	82,035	23,933	586,205	1,247,029	198,993	38,836
Transfers	0	271	2,907	11,532	3,357	(18,066)
Foreign exchange adjustments, year-end rate	(3,136)	(1,218)	(25,855)	(68,350)	16,747	(3,673)
Additions during the year	0	3,338	1,436	16,063	5,865	56,628
Disposals during the year	0	0	(15,890)	(50,916)	(6,148)	(7,933)
Total cost at 31 December 2016	**78,899**	**26,324**	**548,803**	**1,155,358**	**218,814**	**65,792**
Total depreciation and amortisation at 1 January 2016	(30,095)	(21,265)	(221,543)	(885,663)	(113,963)	(7,933)
Foreign exchange adjustments, year-end rate	2,039	1,453	15,516	62,698	(5,013)	0
Foreign exchange adjustments for the year	0	8	(1,305)	626	(534)	0
Depreciation and amortisation of disposals	0	0	15,040	44,834	5,893	7,933
Depreciation and amortisation for the year	0	(2,290)	(18,928)	(49,947)	(11,465)	0
Impairment losses for the year	0	0	(5,620)	0	0	0
Total depreciation, amortisation and impairment losses at 31 December 2016	**(28,056)**	**(22,094)**	**(216,840)**	**(827,452)**	**(125,082)**	**0**
Carrying amount at 31 December 2016	**50,843**	**4,230**	**331,963**	**327,906**	**93,732**	**65,792**

Group (DKK '000) 2015	Goodwill	Other intangible assets	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under con-struction
Total cost at 1 January 2015	80,961	26,047	525,343	1,148,110	205,266	29,790
Transfers	0	80	990	12,488	2,885	(16,443)
Foreign exchange adjustments, year-end rate	1,074	465	13,290	8,543	(10,795)	401
Additions during the year	0	1,090	13,000	14,592	6,885	25,088
Disposals during the year	0	13	64,072	79,596	0	0
Transferred from assets held for sale	0	(3,762)	(14,076)	(16,300)	(5,248)	0
Transferred to assets held for sale	0	0	(16,414)	0	0	0
Total cost at 31 December 2015	**82,035**	**23,933**	**586,205**	**1,247,029**	**198,993**	**38,836**
Total depreciation and amortisation at 1 January 2015	(29,530)	(22,096)	(199,942)	(822,103)	(109,383)	(7,933)
Transfers	0	0	0	0	0	0
Foreign exchange adjustments, year-end rate	(565)	(151)	(2,643)	(19,395)	2,411	0
Foreign exchange adjustments for the year	0	7	198	1,085	878	0
Depreciation and amortisation of disposals	0	3,757	9,337	12,600	5,056	0
Depreciation and amortisation for the year	0	(2,782)	(19,760)	(57,850)	(12,925)	0
Impairment losses for the year	0	0	(8,733)	0	0	0
Transferred from assets held for sale	0	0	0	0	0	0
Transferred to assets held for sale	0	0	0	0	0	0
Total depreciation, amortisation and impairment losses at 31 December 2015	**(30,095)**	**(21,265)**	**(221,543)**	**(885,663)**	**(113,963)**	**(7,933)**
Carrying amount at 31 December 2015	**51,940**	**2,668**	**364,662**	**361,366**	**85,030**	**30,903**

Impairment test of goodwill

On 31 December 2016, management tested the carrying amount of goodwill for impairment based on the allocation of the cost of goodwill to the cash-generating units. Management is of the opinion that the lowest level of cash-generating unit to which the carrying amount of goodwill can be allocated is in each country.

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

Notes - Balance sheet

13 Intangible assets and property, plant and equipment - continued

DKK 28,183 thousand (2015: DKK 28,370 thousand) of the goodwill relates to Germany (Western Europe segment) and DKK 22,660 thousand (2015: DKK 23,670 thousand) to Poland (Eastern Europe segment).

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

Average annual growth has been assessed by local and Group management. The growth rate is not expected to exceed the average long-term growth rate in the H+H Group's markets. An increasing gross margin has been estimated for the period 2017-2022, after which it is expected to be constant. The rising gross margin assumes more expedient utilisation of production capacity as well as price increases.

The WACC is based on generally recognised principles including the determination of return on equity and cost of debt as well as assumptions provided by external analysts.

The return on equity is estimated on the basis of information provided by an independent survey conducted by the IESE Business School regarding the market risk premium and the risk-free rate for the relevant countries. Furthermore, the beta value is the same as that used by the analysts covering the H+H share. The cost of debt is estimated based on the actual margin in the bank agreements and the risk-free rate.

In both 2016 and 2015, the impairment test of goodwill showed no impairment relating to goodwill.

Impairment tests of non-current assets
The Group's key non-current assets were tested for impairment in 2016, including with regard to assets in Poland, Germany, the UK and Russia, which together represent more than 90% of the Group's total non-current assets at 31 December 2016.

The impairment tests of non-current assets performed at 31 December 2016 do not show any indications of impairment.

The Group's land and buildings at Adamowice in Poland is for sale and has been impaired by DKK 5.6 million in 2016, this based on an estimated sales price.

The assumptions made can be summarised as follows:

2016	Poland	Germany	UK	Russia
Carrying amount of intangible assets, property, plant and equipment at 31 December 2016 (DKK '000)	291,955	265,968	161,304	139,385
Estimated average annual growth in revenue 2017-2022 (CAGR)	2.9%	5.6%	8.1%	9.0%
Estimated average annual growth in gross margin in percentage points 2017-2022	0.6	0.5	1.1	1.1
WACC before tax	7.4%	5.8%	6.0%	12.5%
WACC after tax	7.1%	5.5%	5.7%	11.7%

2015	Poland	Germany	UK	Russia
Carrying amount of intangible assets, property, plant and equipment at 31 December 2015 (DKK '000)	339,839	272,297	165,063	123,642
Estimated average annual growth in revenue 2016-2021 (CAGR)	5.7%	3.6%	3.6%	9.3%
Estimated average annual growth in gross margin in percentage points 2016-2021	2.2	1.3	(0.5)	0.2
WACC before tax	6.0%	4.6%	5.6%	12.3%
WACC after tax	5.9%	4.5%	5.4%	11.8%

Overall, the WACC has increased for all markets from 2015 to 2016. The increases are due to increased market risk premiums slightly offset by decreased risk-free rates.

The weighted average growth rate used for extrapolating expected future net cash flows for the years after 2022 has been estimated at 0.0%-1.0% (2015: 2.00%).

Sensitivity on changes in key assumptions
Group management believes that likely changes in the key assumptions will not cause the carrying amount of goodwill and non-current assets to exceed the recoverable amounts. The following sensitivity analysis of impairment tests focuses on changes in discount rate (WACC), long-term growth rate and Compound Average Growth Rate (CAGR). The changes in CAGR for 2017-2022 and beyond are based on the assumption that tax paid follows the decrease in gross margin. All other factors are unchanged in the sensitivity analysis. The assumptions must change as follows before the carrying amount equals the value in use.

Notes - Balance sheet

13 Intangible assets and property, plant and equipment - continued

A Polish market with overcapacity and uncertain market conditions currently being experienced in Russia make it more difficult than normal to predict the future performance of these entities. However, external valuations carried out showed valuations in excess of current asset values.

	2016			
	Poland	Germany	UK	Russia
Long-term growth rate after 2022	(1.4%)	(5.6%)	<-20%	(0.7%)
Change in estimated average annual growth in revenue 2017-2022 (CAGR)	0.9%	3.5%	<-10%	9.5%
WACC before tax	9.2%	10.6%	>20%	13.5%
WACC after tax	8.9%	10.2%	>20%	12.8%

Accounting policies
Intangible assets
Goodwill is recognised initially in the balance sheet at cost. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised. On acquisition, goodwill is allocated to the cash-generating units which subsequently form the basis for impairment testing. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency other than the H+H Group's presentation currency are accounted for as assets and liabilities belonging to the foreign entity, and translated on initial recognition into the foreign entity's functional currency at the exchange rate at the transaction date. Any excess of the fair value over the cost of acquisition (negative goodwill) is recognised in the income statement at the date of acquisition.

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

Other intangible assets comprise patents/licences and development projects. Development projects that are clearly defined and identifiable, and for which technical feasibility, adequate resources and a potential future market or an application in the entity can be demonstrated, and which the entity intends to manufacture, market or use, are recognised as intangible assets if the cost can be determined reliably and if there is reasonable certainty that the future earnings or the net selling price will cover production costs, selling costs, administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Recognised development costs are measured at cost less cumulative amortisation and impairment losses. Cost comprises salaries, amortisation and other expenses attributable to the H+H Group's development activities and interest expenses on loans to finance development projects that relate to the production period. On completion of the development work, development projects are amortised on a straight-line basis over the estimated economic useful life from the date the asset is available for use. The amortisation period is normally 5-10 years. The amortisation base is reduced by any impairment losses.

Patents and licences are measured at cost less cumulative amortisation and impairment losses. Patents and licences are amortised on a straight-line basis over the shorter of the remaining patent or contract period and the useful life. The amortisation base is reduced by any impairment losses. Other intangible assets are amortised on a straight-line basis over the expected useful lives of the assets.

Property, plant and equipment
Land and buildings, plant and machinery, fixtures and fittings, and tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises purchase price and any costs directly attributable to the acquisition up to the date the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and labour. Cost is increased by estimated costs for dismantling and removal of the asset and restoration costs, to the extent that they are recognised as a provision, and interest expenses on loans to finance the production of property, plant and equipment that relates to the production period. The cost of a combined asset is divided into separate components that are depreciated separately if the components have different useful lives.

In the case of assets held under finance leases, cost is determined at the lower of the assets' fair value and the present value of the future minimum lease payments. In determining the present value, the interest rate implicit in the lease or the H+H Group's incremental borrowing rate is used as the discount rate.

Subsequent costs, for example in connection with replacement of part of an item of property, plant or equipment, are recognised in the carrying amount of the asset if it is probable that future economic benefits will flow to the H+H Group from the expenses incurred. The replaced part is de-recognised in the balance sheet, and the carrying amount is transferred to the income statement. All other expenses for general repair and maintenance are recognised in the income statement as incurred.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the assets as follows:

- Production buildings 15-25 years
- Office buildings 30-50 years
- Production equipment, autoclaves, mills, cutting machines and moulds 10-30 years
- Plant, machinery and other equipment 5-20 years
- Vehicles, fixtures and IT equipment 3-10 years

Notes - Balance sheet

13 Intangible assets and property, plant and equipment - continued

- Software and other intangible assets 3-6 years
- Land is not depreciated

The main part of the Groups non-current assets comprises of production equipment, autoclaves, mills, cutting machines and moulds which are depreciated over a period of 10-30 years.

The depreciation base is determined taking into account the asset's residual value and is reduced by any impairment losses. The residual value is determined at the date of acquisition and reviewed annually. Depreciation ceases if the residual value of an asset exceeds its carrying amount. The effect on depreciation of any changes in depreciation period or residual value is recognised prospectively as a change in accounting estimates.

Critical accounting estimates and judgements
Impairment of non-current assets
Goodwill is tested for impairment annually, the first time before the end of the year of acquisition. The carrying amount of goodwill is tested for impairment together with the other non-current assets of the cash-generating unit to which the goodwill has been allocated, and written down to the recoverable amount in the income statement if the carrying amount exceeds the recoverable amount. As a rule, the recoverable amount is determined as the present value of the expected future net cash flows from the entity or activity (cash-generating unit) to which the goodwill relates.

The carrying amounts of other non-current assets are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the higher of its fair value less expected disposal costs and its value in use. The value in use is determined as the present value of expected future cash flows from the asset or the cash-generating unit to which the asset belongs.

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

Impairment losses relating to goodwill are not reversed. Impairment losses relating to other assets are reversed to the extent that the assumptions or estimates that led to the impairment loss have changed. Impairment losses are only reversed to the extent that the asset's new carrying amount does not exceed the value the asset would have had after depreciation/amortisation if no impairment losses had been charged.

The calculation for impairment testing is based on budgets approved by management. Cash flows after the budget period are extrapolated using individual growth rates. The discount rate used for the calculation incorporates possible impacts of future risks.

Useful lives of production assets
The expected useful lives of production assets are determined based on historical experience and expectations concerning the future use of these assets. The expected future applications may subsequently prove not to be realisable, which may require useful lives to be reassessed. The Group has reassessed estimates of the useful lives for 2016. The expected useful lives of production assets are unchanged from 2015.

14 Deferred tax

	Group		Parent company	
(DKK '000)	**2016**	**2015**	**2016**	**2015**
Deferred tax at 1 January	6,102	32,009	0	0
Addition from acquisition	0	(4,722)	0	0
Foreign exchange adjustments	2,128	315	0	0
Change in deferred tax	8,166	(8,807)	(843)	0
Valuation of tax asset	10,484	(12,693)	8,879	0
Deferred tax at 31 December	**26,880**	**6,102**	**8,036**	**0**

	Group		Parent company	
(DKK '000)	**2016**	**2015**	**2016**	**2015**
Deferred tax relates to:				
Non-current assets	(49,480)	(61,203)	0	0
Current assets	676	1,056	0	0
Liabilities	32,531	30,024	0	0
Tax loss carry-forwards	43,153	36,225	8,036	0
Total	**26,880**	**6,102**	**8,036**	**0**
Breakdown of deferred tax and recognition in the balance sheet:				
Deferred tax assets	26,880	11,455	8,036	0
Deferred tax liabilities	0	(5,353)	0	0
Total	**26,880**	**6,102**	**8,036**	**0**

No deferred tax has been recognised on the difference between the cost of equity investments and the carrying amount. This is because the shareholdings in the equity investments are all considered to be "shares in a subsidiary", and any gain/loss is therefore not taxable.

The tax value of loss carry-forwards has been recognised as deferred tax assets in the companies where, based on budget, it is considered very likely that this can be utilised in future earnings and a history of profit before tax within the last three years has been verified. A tax value of loss carry-for-

Notes - Balance sheet

14 Deferred tax - continued

wards of DKK 97 million at 31 December 2016 (2015: DKK 87 million) has not been recognised as deferred tax assets, as these are not considered likely to be utilised. The carry-forward losses mainly relate to Germany, Poland, Russia, Finland and Denmark. Tax value of loss carry-forwards related to discontinued businesses amounts to DKK 49 million at 31 December 2016. None of these losses are recognised.

H+H International A/S has special carried-forward losses related to sale of property and shares with limited possibilities of use with a taxable value of DKK 11 million which is not recognised.

Accounting policies

Income tax and deferred tax: Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method, providing for all temporary differences between the carrying amount and tax base of assets and liabilities. However, the following temporary differences are not recognised: goodwill not deductible for tax purposes and other items – apart from business combinations – where temporary differences have arisen at the date of acquisition that affect neither profit nor taxable income. Where alternative tax rules can be applied to compute the tax base, deferred tax is measured on the basis of management's planned use of the asset or settlement of the liability respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised as other non-current assets at the value at which they are expected to be utilised either by elimination against tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax assets and liabilities are offset if the H+H Group has a legally enforceable right to offset current tax liabilities and assets or intends to settle current tax liabilities and assets on a net basis or to realise tax assets and liabilities simultaneously. Adjustment of deferred tax is made in respect of elimination of unrealised intra-group profits and losses.

Deferred tax is measured on the basis of the tax rules and at the tax rates that will apply under the legislation enacted at the balance sheet date in the respective countries when the deferred tax is expected to crystallise in the form of current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement.

Under the joint taxation rules, H+H International A/S, as the administration company, becomes liable to the tax authorities for the subsidiaries' income taxes as the subsidiaries pay their joint taxation contributions. Joint taxation contributions payable and receivable are recognised in the balance sheet under receivables from/payables to subsidiaries.

Critical accounting estimates and judgements

Recovery of deferred tax assets: Deferred tax assets are recognised for all unutilised tax loss carry-forwards to the extent it is considered likely that the losses can be offset against taxable income in the foreseeable future. The amount recognised for deferred tax assets is based on estimates of the likely date and size of future tax loss carry-forwards.

15 Investments in subsidiaries

	Parent company	
(DKK '000)	**2016**	**2015**
Acquisition cost at 1 January	1,312,728	1,305,830
Additions	545	6,898
Disposals	0	0
Cost at 31 December	**1,313,273**	**1,312,728**
Impairment losses at 1 January	(498,645)	(494,645)
Reversal in connection with disposals	0	0
Reversal of previous write-down	0	0
Impairment losses, equity investments	(62,776)	(4,000)
Impairment losses at 31 December	**(561,421)**	**(498,645)**
Carrying amount at 31 December	**751,852**	**814,083**

The cost of investments in subsidiaries was tested for impairment at the end of 2016. The recoverable amount of the equity investments at 31 December 2016 is based on the value in use, which has been determined using expected net cash flows based on estimates for the years 2017-2022 and a WACC after tax of 5.5%-11.7% (2015: 4.5-11.8%). The weighted average growth rate used for extrapolating expected future net cash flows for the years after 2022 has been estimated at 0.0%-1.0% (2015: 2.0%). It is estimated that the growth rate will not exceed the long-term average growth rate in the respective company's markets; see note 13 for further information on the impairment tests.

Notes - Balance sheet

15 Investments in subsidiaries - continued

An impairment of DKK 62.8 million relating to OOO H+H (Russia) is recognised in the financial statements for 2016. The carrying amount of the subsidiary amounts to DKK 20.0 million in the above table.

An impairment of DKK 4.0 million relating to H+H Finland Oy and Stone Kvitalot Oy was recognised in 2015. The carrying amount of the two subsidiaries amounts to DKK 0.0 million in the above table.

	Registered office	2016 Equity interest, %	2015 Equity interest, %
KWAY Holding Limited*	UK	100	100
H+H Deutschland GmbH	Germany	100	100
H+H Danmark A/S	Denmark	100	100
HHI A/S af 3. maj 2004	Denmark	100	100
H+H Finland Oy	Finland	100	100
Stone Kivitalot Oy	Finland	100	100
H+H Sverige AB	Sweden	100	100
H+H Polska Sp. z o.o.**	Poland	100	100
H+H EIQ s.r.o.	Czech Rep.	100	100
H+H Ukraina TOV	Ukraine	100	100
H+H UA TOV	Ukraine	100	100
OOO H+H	Russia	100	100
H+H Benelux B.V.	Netherlands	100	100
H+H Baltic SIA	Latvia	100	100
Diverse af 29.9.2011 ApS	Denmark	100	100

* This activity comprises ownership of H+H UK Holding Limited and thus the activities of H+H UK Limited.
** This activity comprises ownership of Grupa Prefabet S.A., H+H Invest Sp. Z o.o. and H+H Finance Sp. Z o.o.
The above list does not include indirectly owned companies without any activities.

Accounting policies

Equity investments in subsidiaries in the parent company's financial statements: Equity investments in subsidiaries are measured at cost. If there is any indication of impairment, an impairment test is carried out as described in note 13. Cost is written down to the recoverable amount whenever the carrying amount is higher.

16 Inventories/production costs

	Group		Parent company	
(DKK '000)	2016	2015	2016	2015
Raw materials and consumables	47,379	47,194	0	0
Finished goods and goods for resale	135,060	125,749	0	0
Total	**182,439**	**172,943**	**0**	**0**
Write-downs recognised in the inventories above have developed as follows:				
Write-downs at 1 January	6,210	10,218	0	0
Foreign exchange adjustments	(110)	(502)	0	0
Write-downs for the year	5,924	3,328	0	0
Realised during the year	(553)	(593)	0	0
Reversals	(5,254)	(6,241)	0	0
Total	**6,217**	**6,210**	**0**	**0**
Production costs comprised:				
Wages and salaries	189,527	188,293	0	0
Production overheads	104,487	115,059	0	0
Consumptions of raw materials	911,137	910,305	0	0
Write-downs for the year	5,925	3,328	0	0
Reversals of inventory write-downs	(5,254)	(6,241)	0	0
Total	**1,205,822**	**1,210,744**	**0**	**0**

Accounting policies

Inventories are measured at cost using the FIFO method. Where the net realisable value is lower than the cost, inventories are writ- ten down to this lower value. In the case of goods for resale, and raw materials and consumables, cost comprises purchase price plus expenses incurred in bringing the inventories to their existing location and condition.

Notes - Balance sheet

16 Inventories/production costs - continued

In the case of finished goods and work in progress, cost comprises raw materials, consumables, direct labour and production over- heads. Production overheads comprise indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the production process, and the cost of factory administration and management.

The net realisable value of inventories is determined as the selling price less any costs of completion and costs incurred to execute the sale. The net realisable value is determined on the basis of marketability, obsolescence and developments in expected selling price.

Critical accounting estimates and judgements
Estimation uncertainty relates to write-downs to net realisable value. Inventories are generally written down in accordance with the Group's policies in this area, which comprise individual assessment of inventories with a view to possible losses as a result of obsolescence, quality and cyclical effects.

17 Trade and other receivables

	Group		Parent company	
(DKK '000)	**2016**	**2015**	**2016**	**2015**
Trade receivables	59,161	49,905	0	0
Other receivables	31,844	32,487	13,341	9,622
Total	**91,005**	**82,392**	**13,341**	**9,622**

	Group		Parent company	
(DKK '000)	**2016**	**2015**	**2016**	**2015**
Age analysis of trade receivables:				
Not past due	40,186	46,147	0	0
0-30 days	18,975	3,758	0	0
30-90 days	0	0	0	0
Over 90 days	0	0	0	0
Total trade receivables	**59,161**	**49,905**	**0**	**0**
Write-downs relating to receivables, year-end	**7,297**	**7,427**	**0**	**0**

Write-downs of receivables by geographical region	Group					
(DKK '000)	**2016**			**2015**		
	Western Europe	**Eastern Europe**	**Total**	**Western Europe**	**Eastern Europe**	**Total**
Write-downs at 1 January	1,788	5,639	7,427	1,353	3,236	4,589
Foreign exchange adjustments	(77)	125	48	17	(135)	(118)
Write-downs for the year	1,679	274	1,953	825	4,319	5,144
Realised during the year	(690)	(296)	(986)	(144)	(605)	(749)
Reversals	(47)	(1,098)	(1,145)	(263)	(1,176)	(1,439)
Write-downs relating to receivables at 31 December	**2,653**	**4,644**	**7,297**	**1,788**	**5,639**	**7,427**

The parent company has no trade receivables and there have not been any write-downs of receivables for 2016 or 2015.

Notes - Balance sheet

17 Trade and other receivables- continued

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

Receivables that are not past due are predominantly deemed to have a high credit quality. Security is not normally required. The Group's customers are typically large well-consolidated builders' merchants and housebuilders, and customers are credit rated on a regular basis. Only limited security had been provided at 31 December 2016.

Trade receivables which were past due at 31 December 2016 but not impaired are also included, as follows:

	Group		Parent company	
(DKK '000)	**2016**	**2015**	**2016**	**2015**
Maturity period of trade receivables:				
0-30 days	18,975	3,756	0	0
30-90 days	0	0	0	0
Over 90 days	0	0	0	0
Total	**18,975**	**3,756**	**0**	**0**

Accounting policies

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

Prepayments recognised under assets comprise expenses incurred in respect of subsequent financial years. Prepayments are measured at amortised cost.

Critical accounting estimates and judgements

Management currently makes estimates in assessing the recoverability of receivables at the balance sheet date. The international financial situation has been taken into consideration in the assessment of write-downs at the balance sheet date and in the day-to-day management and control of receivables.

18 Share capital and treasury shares

	Number		Nominal value, DKK '000	
	2016	**2015**	**2016**	**2015**
Share capital at 1 January	10,790,190	9,810,000	107,902	98,100
Capital reduction	0	0	0	0
Issue of ordinary shares (980,190 shares)	0	980,190	0	9,802
Share capital at 31 December – fully paid	**10,790,190**	**10,790,190**	**107,902**	**107,902**

At the extraordinary general meeting held on 4 November 2014, a resolution was passed to reduce the company's share capital by a nominal amount of DKK 392,400,000 – from DKK 490,500,000 to DKK 98,100,000 at par – for allocation to a special fund in accordance with section 188(1)(3) of the Danish Companies Act.

At the same time as the capital reduction, the denomination of the shares was changed from nominal DKK 100 to nominal DKK 10. After the capital reduction, the share capital comprises 9,810,000 shares of nominal value DKK 10. All the shares have the same rights, with each share carrying 10 votes at the general meeting.

On 20 March 2015, H+H International A/S increased its share capital by a nominal amount of DKK 9,800,190 from DKK 98,100,000 to DKK 107,900,190. H+H International A/S's total nominal share capital is DKK 107,900,190 divided into 10,790,019 shares of nominal DKK 10 each, corresponding to 10,790,019 votes.

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

Treasury shares

	Number	Nominal value, DKK '000	% of share capital, year-end
Holding at 1 January 2015	12,021	120	0.1
Purchased during the year	24,000	240	0.2
Granted due to matching share programme in 2012	(11,580)	(116)	(0.1)
Capital reduction	0	0	0
Sold during the year	0	0	0
Holding at 31 December 2015	24,441	244	0.2
Purchased during the year	71,500	715	0.7
Granted due to matching share programme in 2013	(25,713)	(257)	(0.2)
Capital reduction	0	0	0
Sold during the year	0	0	0
Holding at 31 December 2016	**70,228**	**702**	**0.6**

Notes - Balance sheet

18 Share capital and treasury shares - continued

All the treasury shares are owned by H+H International A/S. Treasury shares are acquired in order to hedge liabilities related to the matching share programmes.

Accounting policies
Equity: Proposed dividends are recognised as a liability at the date of adoption at the annual general meeting (declaration date).

Treasury shares: Acquisition costs, disposal costs and dividends relating to treasury shares are recognised directly in retained earnings under equity. Capital reductions as a result of cancellation of treasury shares reduce the share capital by an amount equivalent to the nominal value of the shares. Proceeds from the sale of treasury shares in H+H International A/S in connection with the exercise of share options are taken directly to equity.

19 Pension obligations

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

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

The Danish entities' pension obligations are insured. Some foreign entities' pension obligations are also insured. Foreign entities that are not insured or only insured in part (defined benefit plans) calculate the obligation actuarially at present value at the balance sheet date. These pension plans are fully or partly funded in pension funds for the employees. In the consolidated financial statements, an amount of DKK 171,315 thousand (2015: DKK 112,659 thousand) has been recognised under liabilities in respect of the Group's obligations to existing and former employees after deduction of the assets associated with the plans.

In the consolidated income statement, an amount of DKK 9,427 thousand (2015: DKK 11,159 thousand) has been recognised in respect of expenses relating to insured plans (defined contribution plans). For non-insured plans (defined benefit plans), an amount of DKK 3,199 thousand (2015: DKK 6,595 thousand) has been recognised in the consolidated income statement as financial expenses.

The Group has defined benefit plans in the UK and Germany. The UK pension plans are managed by a pension fund, called H+H Celcon Pension Fund – legally separate from H+H UK Limited the company – to which payments are made, whereas the German pension plans are unfunded. The board of the pension fund is composed of two representatives appointed by the employer, H+H UK, two elected by the pension fund members and two professional independent members.

The board of the pension fund is required by law and by articles of association to act in the interest of the pension fund members. The board of the pension fund is responsible for the investment policy with regard to the plan assets. Under the pension plan, employees are entitled to post-retirement annual payments amounting to 1/60 of the final pensionable salary for each year of service before the retirement age of 65. In addition, the service period is limited to 40 years, resulting in a maximum yearly entitlement (lifetime annuity) of 2/3 of the final pensionable salary.

The defined benefit pension fund in the UK typically exposes the company to actuarial risks, such as investment, interest rate, inflation and longevity. H+H Celcon Pension Fund is supervised by an independent corporate trustee, H+H Celcon Pension Fund Trustee Limited. In accordance with the legislation governing pension funds, the corporate trustee must ensure among other things that a limited actuarial calculation of the pension obligations is carried out each year and a more detailed actuarial calculation of the pension obligations every three years. A detailed actuarial calculation carried out in April 2014 showed an unfunded pension obligation of DKK 179 million (GBP 18.8 million). H+H UK Limited and H+H Celcon Pension Fund Trustee Limited has entered into an agreement on the payment of contributions to cover the unfunded pension obligation (Schedule of Contributions). The agreement sets out a repayment profile under which H+H UK Limited will pay DKK 19 million (GBP 2.17 million) per annum in the period April 2015 - March 2018, increasing to DKK 22 million (GBP 2.50 million) per annum to March 2019, then increasing gradually to DKK 24 million (GBP 2.8 million) per annum in April 2022. The final payment of DKK 12 million (GBP 1.4 million) being paid April 2023 to September 2023.

Notes - Balance sheet

19 Pension obligations - continued

The pension fund was closed to new entrants in June 2007 and to the accrual of future service benefits in December 2011. The link to final salary ended at this point.

The most recent actuarial valuations (based on IAS 19R) of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2016 by Mr Oscar Brown, Fellow of the UK Institute of Actuaries, and in Germany by AON. The present value of the defined benefit obligation, and the related service and past service cost, were measured using the projected unit credit method.

The pension fund in the UK has been replaced by a defined contribution pension scheme where the company is not subject to any ongoing investment, interest rate or mortality risk.

	Group	
(DKK '000)	**2016**	**2015**
Pensions and similar obligations:		
Present value of fully or partly funded defined benefit plans	711,687	647,020
Fair value of plan assets	551,866	544,880
Deficit	159,821	102,140
Present value of unfunded defined benefit plans recognised in the balance sheet	11,494	10,519
Net obligation recognised in the balance sheet	**171,315**	**112,659**
Development in present value of defined benefit obligation:		
Obligation at 1 January	657,539	697,975
Foreign exchange adjustments	(97,559)	44,701
Calculated interest on obligation	22,300	25,796
Gains/losses as a result of changes in economic assumptions	164,413	(71,853)
Gains/losses as a result of changes in demographic assumptions	17,565	(14,648)
Empirical changes	(11,521)	2,147
Pension paid	(29,556)	(26,579)
Obligation at 31 December	**723,181**	**657,539**
Breakdown of the present value of defined benefit obligation:		
Present value of fully or partly funded defined benefit obligations	711,687	647,020
Present value of unfunded defined benefit obligations	11,494	10,519
Obligation at 31 December	**723,181**	**657,539**

	Group	
(DKK '000)	**2016**	**2015**
Development in fair value of plan assets:		
Plan assets at 1 January	544.880	508.454
Foreign exchange adjustments	(79.807)	31.812
Calculated interest income	18.899	19.201
Return on plan assets over and above the calculated interest	77.171	(10.930)
The Group's contributions to plan assets	19.707	22.363
Pensions paid	(28.984)	(26.020)
Plan assets at 31 December	**551.866**	**544.880**
Pension costs relating to the current financial year, recognised as staff costs:		
Pension costs relating to defined contribution plans	9.286	10.942
Total pension costs	**9.286**	**10.942**
Financial costs relating to the defined benefit plans for the current year:		
Calculated interest on obligation	(22.300)	(25.796)
Calculated interest on plan assets	18.899	19.201
Net interest on defined benefit plans	**(3.401)**	**(6.595)**
Pension costs recognised in other comprehensive income:		
Gains/losses as a result of change in economic assumptions	(164.413)	71.853
Gains/losses as a result of change in demographic assumptions	(17.565)	14.648
Return on plan assets over and above the calculated interest	77.171	(10.930)
Changes due to empirical changes	11.521	(2.147)
Total	**(93.286)**	**73.424**

The cost has been recognised in the income statement under staff costs; see note 3. Costs recognised under production costs amount to DKK 5,472 thousand (2015: DKK 6,214 thousand), costs recognised under sales and distribution costs amount to DKK 2,201 thousand (2015: DKK 2,525 thousand) and costs recognised under administrative costs amount to DKK 1,613 thousand (2015: DKK 2,202 thousand).

Plan assets can be broken down as follows:

Shares	221,850	215,227
Bonds	327,808	328,018
Cash	2,208	1,635
Total	**551,866**	**544,880**

Notes - Balance sheet

19 Pension obligations - continued

Return on plan assets	Group 2016	2015
Actual return on plan assets	96,311	8,271
Calculated interest on plan assets	18,899	19,201
Actuarial gain (loss) on plan assets	**77,412**	**(10,930)**

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

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

(DKK '000)	Group 2016	2015
Discount rate (avg.)	2.6%	3.9%
Expected inflation rate	3.5%	3.0%
Members' life expectancy from retirement age (years)	23.2	22.5

Sensitivity analysis

The table below shows the sensitivity of the pension obligation to changes in the key assumptions for determination of the obligation on the balance sheet date. The H+H Group is also exposed to developments in the market value of the plan assets. The key actuarial assumptions in determination of the pension obligation relate to interest rate level, pay increases and mortality.

The analysis is based on the reasonably likely changes which can be expected on the balance sheet date, provided that the other parameters in the calculations are unchanged and not subject to consequential changes:

(DKK '000)	Group 2016	2015
Sensitivity relative to discount rate:		
If the discount rate falls by 0.1 percentage point, the pension obligation will increase by	12,694	11,123
Sensitivity relative to inflation: If the inflation rate increases by 0.1 percentage point, the pension obligation will increase by	5,912	7,685
Sensitivity relative to life expectancy from retirement age:		
If the life expectancy from retirement age increases by 1 year, the pension obligation will increase by	21,736	20,224

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

The pension obligation is expected to fall due as follows:

(DKK '000)	Group 2016	2015
0-1 year	28,333	26,104
1-5 years	113,331	104,416
Over 5 years	581,517	527,019
Total	**723,181**	**657,539**

Actuarial assumptions

Discount rate

The discount rate is based on high-quality corporate bonds, and an adjustment has been made to reflect the fact that the duration of the bonds does not correspond to the duration of the pension obligation.

Price inflation

Inflation is based on market expectations for inflation over the duration of the pension liabilities and is calculated as a single equivalent rate.

Demographic assumptions are based on the latest available mortality projection model.

Accounting policies

Pension obligations: The H+H Group has entered into pension agreements and similar agreements with some of its employees. Obligations relating to defined contribution plans are recognised in the income statement over the vesting period, and any contributions payable are recognised in the balance sheet as other payables.

In the case of defined benefit plans, the value in use of future benefits to be paid under the plan is determined actuarially on an annual basis. The value in use is determined on the basis of assumptions concerning future trends in factors such as salary levels, interest rates, inflation and mortality.

The value in use is determined only for the benefits attributable to service already rendered to the H+H Group. The actuarially determined value in use less the fair value of any plan assets is recognised in the balance sheet under pension obligations.

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

Notes - Balance sheet

Notes - Supplementary information

19 Pension obligations - continued

Critical accounting estimates and judgements
Defined benefit pension plans: The present value of pension obligations depends on the actuarial assumptions made. These assumptions comprise the discount rate, inflation rate, estimated return on plan assets, future salary increases, mortality and future developments in pension obligations.

All assumptions are reviewed at the reporting date. Any changes in the assumptions will affect the carrying amount of the pension obligations.

20 Provisions

	Group	
(DKK '000)	**2016**	**2015**
Provisions at 1 January	40,823	32,586
Foreign exchange adjustments	(63)	24
Provisions for the year	4,518	19,302
Utilised during the year	(6,401)	(10,993)
Reversals during the year	(4,907)	(96)
Provisions at 31 December	**33,970**	**40,823**
Breakdown of the provisions at 31 December:		
Warranty obligations	4,945	1,135
Obligations relating to restoration of sites	5,759	8,880
Onerous contracts	13,701	16,725
Close down costs related to Finland	3,694	7,580
Other provisions	5,871	6,503
Total	**33,970**	**40,823**

H+H's companies provide normal warranties in respect of products supplied to customers. The provision for warranty obligations thus relates to warranties provided in respect of products supplied prior to the balance sheet date. The warranty period varies depending on normal practice in the markets in question. The warranty period is typically between one and five years. Warranty obligations have been determined separately for each company based on normal practice in the market in question and historical warranty costs. At 31 December 2016, warranty obligations relate predominantly to Finland and Germany.

The obligation in respect of restoration of sites relates to H+H's sites in Poland. The obligation has been calculated on the basis of external assessments of the restoration costs. Restoration is expected to take place after five years.

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

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

The provisions are recognised based on expected maturities whereas for 2016 DKK 24 million is recognised as non-current liabilities and DKK 10 million as current liabilities. For 2015 is DKK 25 million recognised as non-current liabilities and DKK 16 million as current liabilities.

In 2015, a provision of DKK 28 million was recognised in the parent company relating to the bank debt in H+H Finland Oy and Stone Kivitalot Oy, since H+H International A/S has an obligation to pay the debt if the subsidiaries cannot service their debt. The provision is increased to DKK 31.3 million in 2016.

Accounting policies
Provisions are recognised when, as a result of an event occurring before or at the balance sheet date, the H+H Group has a legal or constructive obligation, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits.

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

In connection with the measurement of provisions, the costs required to settle the obligation are discounted to net present value if this has a material effect on the measurement of the obligation. A pre-tax discount rate is applied that reflects the general interest rate level plus the specific risks attached to the provision. The changes in present values during the financial year are recognised under financial expenses.

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

A provision for restructuring is recognised when a detailed formal plan for the restructuring has been made public, no later than the balance sheet date, to those affected by the plan.

A provision for onerous contracts is recognised when the benefits expected to be derived by the H+H Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

If the H+H Group has an obligation to dismantle or remove an asset or restore the site on which the asset has been used, a provision equivalent to the present value of the expected future expenses is recognised.

Notes - Supplementary information

21 Credit institutions

(DKK '000)	2016	2015	2016	2015
Bank loans	396,203	498,889	307,503	338,138
Amortised borrowing costs	(1,283)	(2,260)	(1,283)	(2,260)
Total	**394,920**	**496,629**	**306,220**	**335,878**

H+H will be dependent on debt financing in the coming years, and maintenance of the committed credit facilities is conditional upon compliance with a number of financial covenants; see note 26.

Accounting policies

Bank loans etc. are recognised at the date of borrowing at the proceeds received net of transaction costs incurred. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest rate method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement under financial expenses over the term of the loan.

Financial liabilities also include the capitalised residual obligation on finance leases, measured at amortised cost. Other liabilities are measured at amortised cost.

22 Contingent liabilities

	Group		Parent company	
(DKK '000)	2016	2015	2016	2015
Operating leases	Lease payments	Lease payments	Lease payments	Lease payments
0-1 year	9,865	10,801	265	211
1-5 years	12,550	15,354	334	372
Over 5 years	0	61	0	0
Total	**22,415**	**26,216**	**599**	**583**

Lease payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Assets held under operating leases comprise production equipment and vehicles, primarily in the UK and Germany.

	Group		Parent company	
(DKK '000)	2016	2015	2016	2015
Rental obligations	Lease payments	Lease payments	Lease payments	Lease payments
0-1 year	3,715	3,294	359	560
1-5 years	6,687	6,152	0	0
Over 5 years	52,014	61,729	0	0
Total	**62,416**	**71,175**	**359**	**560**

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

An amount of DKK 16,743 thousand (2015: DKK 15,651 thousand) has been recognised in the consolidated income statement for 2016 in respect of operating leases and rental obligations.

Taxes and duties

The parent company is the administration company for the jointly taxed Danish companies. Pursuant to the rules on this contained in the Danish Corporation Tax Act, the parent company is thus liable to withhold tax at source on interest, royalties and dividends for the jointly taxed companies for contingent liabilities, and to withhold corporation tax from 1 January 2013. The Group's Danish companies are further jointly and severally liable for joint registration of VAT.

Financial guarantee

The parent company H+H International A/S acts as guarantor for the subsidiaries' drawdowns on the Group's credit facility. The financial guarantee at 31 December 2016 amounts to DKK 87,864 thousand (2015: DKK 160,752 thousand).

Other

The parent company H+H International A/S has issued letters of support to some of the subsidiaries. Management does not expect these to give rise to losses for the parent company.

The H+H Group is a party to a few pending legal proceedings. In management's opinion, the outcome of these proceedings will not have any impact on the Group's financial position apart from the receivables and payables recognised in the balance sheet.

Certain shares and land and buildings in some subsidiaries have been pledged as security for a loan agreement with Danske Bank A/S.

Notes - Supplementary information

23 Auditors' remuneration

	Group		Parent company	
(DKK '000)	2016	2015	2016	2015
Total fees for the parent company's auditors elected at the annual general meeting:				
Deloitte	2,426	2,544	540	703
Total	**2,426**	**2,544**	**540**	**703**
The total fee can be broken down as follows:				
Statutory audit	1,800	1,934	512	453
Other audit services	0	0	0	0
Tax and VAT assistance	403	328	28	0
Other services	223	282	0	250
Total	**2,426**	**2,544**	**540**	**703**

24 Discontinued operations and assets held for sale

Assets held for sale

As part of its continued focus on core business and a desire to reduce interest-bearing debt, H+H set out to sell some of its non-strategic assets, this process is broadly complete.

During 2016 land at Kozienice in Poland and land and buildings in the Czech Republic, and unused production equipment have been sold. The sale proceeds were DKK 40.0 million and result in an accounting gain before tax of DKK 13.0 million. During 2015 a plot of land in Poland classified as held for sale was sold for DKK 13 million.

Land and buildings are still for sale at Adamowice and Wilkasy in Poland, but are not expected to be sold within the next 12 months.

Discontinued operations

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

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

	Group	
(DKK '000)	2016	2015
Discontinued operations have impacted the income statement as follows:		
Operating loss for the period until transfer of control	(6,721)	(13,628)
Tax on loss for the period	0	0
Loss on sale of non-current assets held for sale	0	(5,518)
Total	**(6,721)**	**(19,146)**
Operating loss for the period until transfer of control can be specified as follows:		
Revenue	8	4,191
Expenses	(6,729)	(17,819)
Loss for the year before tax	(6,721)	(13,628)
Tax on loss for the year	0	0
Loss for the year after tax	(6,721)	(13,628)
Loss for the year from discontinued operations	**(6,721)**	**(13,628)**
Earnings per share from discontinued operations (EPS) (DKK)	(0.63)	(1.81)
Diluted earnings per share from discontinued operations (EPS-D) (DKK)	(0.63)	(1.81)
Cash flow from operating activities	(11,170)	(20,807)
Cash flow from investing activities	0	5,163
Cash flow from financing activities	6,577	3,539
Total cash flow	**(4,594)**	**(12,105)**
Assets held for sale and liabilities relating to assets held for sale:		
Intangible assets	0	0
Property, plant and equipment	0	23,335
Inventories	0	0
Receivables	0	1,054
Cash and cash equivalents	0	0
Assets held for sale, total	**0**	**24,389**
Credit institutions	0	0
Trade payables	0	0
Other payables	0	0
Other provisions	0	0
Liabilities relating to assets held for sale, total	**0**	**0**

Notes - Supplementary information

24 Discontinued operations and assets held for sale - continued

Accounting policies
Assets held for sale: Assets held for sale comprise non-current assets and disposal groups which are intended for sale. A disposal group is a group of assets which will be disposed of together by means of sale or similar in a single transaction. Liabilities relating to assets "held for sale" are liabilities directly associated with these assets, which will be transferred at the time of the transaction. Assets are classified as "held for sale" if their carrying amount will primarily be recovered by means of sale within 12 months in accordance with a formal plan rather than by means of continued use.

Assets or disposal groups held for sale are measured at the lower of the carrying amount at the time of classification as "held for sale" and the fair value less selling costs. No depreciation or amortisation is applied to assets from the time they are classified as "held for sale".

Impairment losses arising in connection with initial classification as "held for sale" and gains or losses on subsequent measurement at the lower of carrying amount and fair value less selling costs are recognised in the income statement under the items to which they relate. Gains and losses are disclosed in the notes.

Assets and associated liabilities are recorded separately in the balance sheet, and the main items are specified in the notes. The comparative figures in the balance sheet are not restated.

Presentation of discontinued operations: Discontinued operations make up a significant part of the business where the activities and cash can be clearly separated from the rest of the business in operational and accounting terms, and the entity has either been disposed of or has been classified as "held for sale" and the sale is expected to be implemented within one year in accordance with a formal plan. Discontinued operations also include entities classified as "held for sale" in connection with an acquisition.

Profit after tax from discontinued operations, value adjustments after tax on associated assets and liabilities, and gains/losses on sale are presented in a separate line in the income statement, and the comparative figures are restated. Revenue, expenses, value adjustments and tax on the discontinued operations are disclosed in the notes. Assets and associated liabilities for discontinued operations are recorded separately in the balance sheet without the comparative figures being restated, cf. "Assets held for sale", and the main items are specified in the notes.

Cash flows from operating, investing and financing activities for the discontinued operations are disclosed in a note.

Critical accounting estimates and judgements
Assets held for sale and discontinued operations: Estimates significant to the financial reporting for discontinued operations mainly comprise measurement of the selling price of projects in progress, which is determined i.a. on the basis of expected residual expenses and income. Also relevant here is the outcome of disputes relating to claims for additional performance, payment for delays etc., determined i.a. on the basis of the stage of negotiation with the counterparty and an assessment of the likely outcome.

25 Acquisition and divestment of subsidiaries and activities

Acquisition of subsidiaries
H+H acquired 100% of the shares in the Polish aircrete company Grupa Prefabet S.A. on 5 February 2015 for a total consideration of PLN 60 million (DKK 108 million) (enterprise value). The purchase price is being paid in accordance with a detailed deferred payment plan.

Grupa Prefabet was one of the largest aircrete manufacturers in Poland, with five production sites and around 325 employees. Poland is the largest aircrete market in Europe, but the level of activity has fallen significantly in recent years as a result of the economic slowdown, which has led to considerable excess capacity and a lack of profitability among manufacturers. H+H anticipates that the acquisition of Grupa Prefabet will enable it to take part in the required restructuring of the Polish market, and expects to be able to realise savings through economies of scale.

The fair value of the acquired assets, liabilities and contingent liabilities exceeded the purchase price. The difference, termed negative goodwill, has been calculated at DKK 56.3 million. In accordance with IFRS 3, the negative goodwill has been recognised as income under other operating income.

Due to the tough market situation in Poland, the purchase price of Grupa Prefabet was significantly lower than the fair value of the assets. The seller's intention of pulling out of the Polish aircrete market in the immediate future also impacted the agreed purchase price.

The table below provides a summary of the purchase price for Grupa Prefabet and the calculation of the fair value of acquired assets and liabilities on the acquisition date.

Notes - Supplementary information

25 Acquisition and divestment of subsidiaries and activities - continued

(DKK '000)	Group 5 February 2015
Other intangible assets	0
Property, plant and equipment	127,493
Receivables	10,798
Inventories	20,506
Assets held for sale	16,414
Other current assets	2,103
Acquired assets	**177,314**
Non-current liabilities	2,804
Payables	18,288
Other current liabilities	4,409
Deferred tax	4,722
Assumed liabilities	**30,223**
Total identifiable acquired net assets	147,091
Negative goodwill in connection with the acquisition	(56,271)
Purchase price	**90,820**
Movements in cash flow in connection with the acquisition:	
Purchase price	90,820
Deferred payment	(60,404)
Net cash flow in connection with the acquisition of Grupa Prefabet S.A.	**30,416**

The cost price was PLN 60 million (DKK 108 million) before any adjustments related to net working capital, PLN 37.5 million of which is deferred. The deferred amount falls due in June 2016 and June 2017. Payment of the deferred amount is not subject to any other conditions. The remaining part of the deferred payments amount to DKK 33.5 million as of 31 December 2016.

Grupa Ozorow S. A., the seller, has a charge on the acquired assets of Grupa Prefabet S. A. for the deferred payments.

Profit for 2015 of DKK 0.4 million attributable to Grupa Prefabet excluding restructuring costs is included in profit for the year. Revenue for 2015 includes DKK 88.8 million in respect of Grupa Prefabet.

Had the acquisition been effective 1 January 2015, H+H's revenue for 2015 from continuing operations would have been DKK 1,630 million, and the profit for the year for 2015 from continuing operations would have been DKK 59.6 million. Restructuring costs for Grupa Prefabet are excluded from the figures above.

Acquisition-related costs of DKK 3.8 million (2015: costs of DKK 3.4 million) have been recognised under other operating expenses in the Group's income statement for 2016.

Acquired assets and assumed liabilities mainly comprise property, plant and equipment and intangible assets relating to acquired factories and inventories.

Accounting policies

For accounting purposes, business combinations are handled using the acquisition method. The cost is measured as the total of the transferred consideration, measured at fair value on the transaction date, and any non-controlling interests in the acquiree.

For each individual business combination, non-controlling interests in the acquiree are measured either at fair value or at the proportionate share of the entity's identifiable net assets. Acquisition costs incurred are charged to the income statement. After initial recognition, goodwill is measured at cost less accumulated impairment losses. To test for impairment, goodwill acquired as a result of a business combination is allocated to the cash-generating units in H+H that are expected to benefit from the business combination. If goodwill represents part of the cash-generating unit, and part of the activity in this unit is divested, goodwill relating to the activity disposed of is recognised in the carrying amount of the activity in connection with determination of gain or loss on disposal of the activity. Goodwill divested in this connection is measured on the basis of the relative value of the divested activity and the remainder of the cash-generating unit.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

26 Financial instruments and financial risks

H+H's risk management policy

As a result of its operating, investing and financing activities, H+H is exposed to various financial risks, including market risks (currency, interest rate and commodity risks), credit risks and liquidity risks. It is H+H's policy not to speculate actively in financial risks.

H+H's financial risk management is thus aimed exclusively at managing the financial risks that are a direct consequence of H+H's operating, investing and financing activities. This note relates exclusively to financial risks directly associated with H+H's financial instruments. There have been no material changes in H+H's risk exposure or risk management compared with last year.

26 Financial instruments and financial risks - continued

Currency risks
H+H's companies are exposed to currency risks. Financial instruments are primarily entered into in the individual consolidated entities' functional currencies as a result of their purchase and sales transactions. However, H+H has a translation risk, as a result of which H+H's profit/loss is exposed to fluctuations in the functional currencies. H+H does not engage in currency speculation.

The individual consolidated entities do not enter into financial instruments denominated in foreign currencies unless commercially warranted, and expected transactions and financial instruments in foreign currencies that exceed a limited level and time horizon require hedging. Derivatives and other financial instruments are used only to a limited extent to hedge currency risks. H+H entered foreign contracts in 2016 for purchase of EUR and PLN paid in GBP for the period January - December 2016. H+H did not use derivatives or other financial instruments to hedge currency risks in 2015.

The individual subsidiaries do not have any material exposure to currencies other than the functional currency. The table on the following page shows the Group's monetary items by currency.

Interest rate risks
As a result of its investing and financing activities, H+H is exposed to interest rate fluctuations both in Denmark and abroad. The main interest rate exposure is related to fluctuations in CIBOR, LIBOR, EURIBOR and WIBOR. It is H+H's policy to hedge interest rate risks on H+H's loans if it is assessed that the interest payments can be hedged at a satisfactory level. Hedging is normally effected using interest rate swaps, where floating-rate loans are swapped to fixed-rate loans.

Liquidity risks
The H+H Group's liquidity risk is defined as the risk that the H+H Group will not, in a worst-case scenario, be able to meet its financial obligations due to insufficient liquidity. It is the H+H Group's policy for capital procurement and placing of surplus funds to be managed centrally by the parent company.

H+H regularly evaluates the capital structure on the basis of expected cash flows with a view to ensuring an appropriate balance between adequate future financial flexibility and a reasonable return to shareholders.

Loan agreement
The Group has a committed credit facility of DKK 662 million running until 15 February 2018 with Danske Bank A/S. This facility will be replaced by a new committed credit facility.

In regards to the credit facility of DKK 662 million, the company and those of its subsidiaries that are participating in the loan agreement, or that may be considered a material subsidiary, provide cross-guarantees for one another's obligations under the loan agreement.

The loan agreement may be cancelled without notice by the lender if the company's shares are delisted from Nasdaq Copenhagen. The loan agreement may also be terminated by Danske Bank A/S without notice if investors other than Scandinavian institutional investors, individually or through coordinated collaboration, gain control of more than one-third of the shares or more than one-third of the total number of voting rights carried by the shares in H+H International A/S.

The company is also required to obtain the prior permission of Danske Bank A/S in the case of certain significant events.

The loan agreement contains a number of financial covenants to be fulfilled for each calendar quarter. In 2016 all financial covenants were fulfilled. For further details on the new facility, please refer to note 28.

Credit risks
H+H is exposed to credit risks in the course of its activities. These risks are primarily related to receivables in respect of sales of H+H's products. Other credit risks, which relate to bank deposits and counterparties under financial contracts, are considered to be insignificant.

The maximum credit risk related to financial assets corresponds to the carrying amounts recognised in the balance sheet. The H+H Group does not have any material risks relating to a single customer, business partner or country.

The H+H Group's customers are primarily large well-consolidated builders' merchants. The H+H Group has modest credit exposure to housebuilders and developers in a few markets. In keeping with the H+H Group's credit policy, all major customers are credit rated on a regular basis. Credit limits are determined on the basis of the individual customer's credit rating.

If the credit rating of a customer is considered not to be sufficient, the payment terms will be changed or security or credit insurance will be obtained. The H+H Group regularly monitors its credit exposure to customers as part of its risk management. The customer types in the individual segments are typically very similar, regardless of which segment they come from. The H+H Group has historically suffered relatively small losses as a result of non-payment on the part of customers. These losses have been evenly distributed among the H+H Group's geographical segments. The credit quality of receivables is consequently considered to be identical, regardless of which segment the receivables come from.

Notes - Supplementary information

26 Financial instruments and financial risks - continued

Monetary items in foreign currency

Group

(DKK '000) 2016	EUR	GBP	PLN	DKK	RUB	Other	Total
Trade receivables	2,358	23,977	3,348	20,935	3,391	5,151	59,161
Cash and cash equivalents	2,104	44	3,881	207	1,685	339	8,259
Trade payables	(25,738)	(101,444)	(37,739)	(15,267)	(5,260)	(2,704)	(188,153)
Credit institutions	(31,007)	(4,100)	(42,984)	(310,861)	0	(5,968)	(394,920)
Gross exposure	(52,283)	(81,523)	(73,494)	(304,985)	(184)	(3,183)	(515,653)
Hedged via derivative financial instruments	0	0	0	0	0	0	0
Net exposure	**(52,283)**	**(81,523)**	**(73,494)**	**(304,985)**	**(184)**	**(3,183)**	**(515,653)**

2015	EUR	GBP	PLN	DKK	RUB	Other	Total
Trade receivables	1,116	21,206	3,816	14,606	6,237	2,923	49,904
Cash and cash equivalents	1,498	42,392	4,364	385	1,354	1,555	51,548
Trade payables	(25,158)	(112,922)	(31,372)	(8,536)	(3,336)	(5,838)	(187,162)
Credit institutions	(24,345)	(66,033)	(61,998)	(338,017)	0	(6,236)	(496,629)
Gross exposure	(46,889)	(115,357)	(85,190)	(331,562)	4,255	(7,596)	(582,339)
Hedged via derivative financial instruments	0	0	0	0	0	0	0
Net exposure	**(46,889)**	**(115,357)**	**(85,190)**	**(331,562)**	**4,255**	**(7,596)**	**(582,339)**

Parent company's monetary items and sensitivity

(DKK '000)	2016				2015			
	Position	Sensitivity			Position	Sensitivity		
	Cash and receivables	Potential volatility of exchange rate	Hypothetical impact on profit before tax for the year*	Hypothetical impact on equity	Cash and receivables	Potential volatility of exchange rate	Hypothetical impact on profit before tax for the year*	Hypothetical impact on equity
EUR/DKK	315,348	1%	3,153	2,460	321,269	1%	3,213	2,410
GBP/DKK	(63,548)	5%	(3,177)	(2,478)	(35,331)	5%	(1,767)	(1,325)
			(24)	**(19)**			**1,446**	**1,085**

* The hypothetical impact on profit/loss and equity is significant to the parent company's financial statements but not necessarily to the consolidated financial statements.

The parent company has significant monetary items in currencies other than the functional currency in the form of loans to subsidiaries. The table above shows the parent company's key monetary positions broken down by currency and derived sensitivity.

Sensitivity of profit and equity to market fluctuations

Group

(DKK '000)	2016 Profit	2016 Equity	2015 Profit	2015 Equity
5% increase in GBP/DKK	5,621	12,819	4,992	16,426
5% increase in PLN/DKK	66	11,693	1,490	12,153
5% increase in RUB/DKK	(264)	8,298	(314)	7,408
	5,423	**32,811**	**6,168**	**35,987**

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

Notes - Supplementary information

26 Financial instruments and financial risks - continued

(DKK '000)	Group 2016				Group 2015			
	Net interest-bearing debt	Interest hedged	Net position	Weighted time to maturity of hedging	Net interest-bearing debt	Interest hedged	Net position	Weighted time to maturity of hedging
DKK	310,655	0	310,655	0	337,633	0	337,633	0
EUR	28,903	0	28,903	0	22,847	0	22,847	0
PLN	39,103	0	39,103	0	57,635	0	57,635	0
CZK	(138)	0	(138)	0	(144)	0	(144)	0
RUB	(1,685)	0	(1,685)	0	(1,354)	0	(1,354)	0
GBP	4,056	0	4,056	0	23,641	0	23,641	0
Other	5,766	0	5,766	0	4,824	0	4,824	0
Total	**386,661**	**0**	**386,661**	**0**	**445,082**	**0**	**445,082**	**0**

The table above illustrates H+H's interest rate exposure on financial instruments at the balance sheet date. At 31 December 2016, the Group was not involved in any interest rate swaps.

All other things being equal, based on H+H's average net interest-bearing debt (expressed by quarter), an increase of 1 percentage point per year in the interest rate level relative to the average interest rate level in 2015 would reduce profit/loss before tax by DKK 4.3 million (2015: DKK 5.3 million).

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

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

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

(DKK '000)	2015			
Non-derivative financial instruments:	**Carrying amount**	**0-1 year**	**1-5 years**	**Over 5 years**
Credit institutions and banks	496,629	0	496,629	0
Trade payables	187,162	187,162	0	0
Total	**683,791**	**187,162**	**496,629**	**0**

Hedge accounting under IAS 39

The fair value of those financial instruments that qualify for designation as hedge accounting under IAS 39 is recognised directly in other comprehensive income until the hedged items are recognised in the income statement. No such financial instruments were used in 2016 or 2015.

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

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

No such contracts have been recognised at 31 December 2015.

Notes - Supplementary information

26 Financial instruments and financial risks - continued

Categories of financial instruments

(DKK '000)	Group 2016		Group 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables	59,161	59,161	49,905	49,905
Other receivables	31,844	31,844	32,487	32,487
Cash and cash equivalents	8,259	8,259	51,547	51,547
Total receivables	**99,264**	**99,264**	**133,939**	**133,939**
Credit institutions and banks	394,920	394,920	496,629	496,629
Trade payables and other payables	267,924	267,924	263,728	263,728
Total financial liabilities measured at amortised cost	**662,844**	**662,844**	**760,357**	**760,357**

Classification and assumptions for the calculation of fair value

Current bank loans at variable interest rates are valued at a rate of 100. The fair value of long-term loans and finance leases is calculated using models that discount all estimated and fixed cash flows to net present value. The expected cash flows for the individual loan or lease are based on contractual cash flows. Financial instruments relating to sale and purchase of goods etc. with a short credit period are considered to have a fair value equal to the carrying amount. The methods are unchanged from 2015.

27 Related parties

The Group's related parties are the Executive Board and the Board of Directors.

Apart from contracts of employment, no agreements or transactions have been entered into between the company and the Executive Board. Remuneration to the Board of Directors and the Executive Board is disclosed in note 3.

H+H International A/S has no controlling shareholders. Besides the parties specified above, the parent company's related parties consist of its subsidiaries; see note 15.

A management fee totalling DKK 33,500 thousand (2015: DKK 28,025 thousand) was received by the parent company from the remainder of the Group.

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

Trading with related parties is at arm's length.

28 Events after the balance sheet date

On 16 March 2017, a new committed credit facility was agreed with Danske Bank A/S subject to H+H's fulfilment of certain formal requirements concerning the execution of the loan agreement by all relevant H+H Group entities and renewal of certain security. The new agreement lasts for three years and has been secured on attractive market terms. The loan agreement contains financial covenants to be fulfilled each quarter.

Other than the above, no events have occurred after the balance sheet date that will have a material effect on the parent company's or the H+H Group's financial position.

Statement by the Executive Board and the Board of Directors

The Executive Board and the Board of Directors have today discussed and approved the annual report of H+H International A/S for the financial year 2016.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2016 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 2016.

In our opinion, the management's review includes a fair review of the development in the parent company's and the Group's operations and financial conditions, the results for the year and the parent company's financial position, and the position as a whole for the entities included in the consolidated financial statements, as well as a description of the more significant risks and uncertainty factors that the parent company and the Group face.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 17 March 2017

Executive Board:

Michael Troensegaard Andersen
CEO

Ian Lea Perkins
CFO

Board of Directors:

Kent Arentoft
Chairman

Stewart Antony Baseley

Pierre-Yves Jullien

Henriette Schütze

Søren Østergaard Sørensen

Independent auditors' report

To the shareholders of H+H International A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of H+H International A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as for the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2016, and of the results of their operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements* section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 01.01.2016 – 31.12.2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Accounting for defined benefit pension plan in H+H, UK Refer to Note 1 General accounting policies page 37 critical accounting estimates and Note 19 "Defined benefit pensions" pages 54-57 in the Group financial statements. As of 31.12.2016, the Group has recognised a material pension obligation of DKK 171m in accordance with IAS 19 primarily relating to H+H, UK. The measurement of the pension obligation requires significant levels of judgement and technical expertise in choosing appropriate assumptions, methods and model. Small changes to key assumptions can have a material impact on the obligation, in particular: ▪ Discount rate ▪ Mortality rate, and ▪ Investment income of the pension plan External actuaries have assisted the Group.	We have evaluated the Group's assessment of the pension liabilities in H+H, UK as follows: ▪ Agreed the discount and mortality rates as well as the expected investment income of the pension plan used in the valuation of the pension obligation to our expectations using our own internal actuarial specialists and compared the assumptions to national and industry accepted averages. ▪ Evaluated the competencies of the external actuaries who have assisted the Group to calculate the defined benefit pension obligation, by evaluating their approach and association with the appropriate industry body. ▪ Performed testing on the assets of the pension plan and membership statistics of the scheme. ▪ Assessed the adequacy and appropriateness of disclosures in the notes and that they comply with the requirements of IAS 19.

Key audit matter	How the matter was addressed in the audit
Impairment test of goodwill in H+H Poland and Property, plant & equipment in H+H Russia Refer to Note 1 “General accounting policies” page 37 “Critical accounting estimates” and Note 13 page 45-49. “Intangible assets and Property, plant and equipment” where Management’s annual impairment test is described in detail. Goodwill allocated to H+H Poland totals DKK 23m and Property, plant and equipment in H+H Russia totals DKK 139m at 31.12.2016. No impairment losses have been recognised in 2016. A Polish market with overcapacity and the uncertain market conditions currently experienced in Russia make it more difficult than normal to predict the future performance of these entities and thereby increases the risk that Property, plant and equipment in H+H Russia and goodwill allocated to H+H Poland could become subject to impairment losses. The impairment tests prepared by Management involve significant judgement about future annual sales growth, gross margins and the discount rates applied.	We have assessed whether the method and assumptions adopted to calculate the value in use is appropriate. In this context, we have: ▪ Evaluated the assumptions, methods and model applied for impairment testing, including consistency with prior years. ▪ Obtained supporting documentation prepared by Management of accounting assessments and significant assumptions applied for impairment testing, with focus on discount rate, expected developments in future annual growth and gross margin and discussed these with Management. ▪ Compared earnings expectations with the latest budget approved by the Board of Directors and earnings realised in the past. ▪ Tested Management’s sensitivity analyses. ▪ Assessed the adequacy and appropriateness of disclosures in the notes and that they comply with the requirements of IAS 36.

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

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Management’s responsibilities for the consolidated financial statements and the parent financial statements
Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group’s and the Parent’s ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless management either intends to liquidate the Group or the Parent or to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated financial statements and the parent financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance

is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 17 March 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

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