

H+H International A/S

Interim financial report
H1 2010

Company Announcement No. 224



build with ease

H+H

Copenhagen, 31 August 2010

Interim financial report H1 2010

- Second-quarter revenue was DKK 365.1 million (2009: DKK 274.7 million). First-half revenue was DKK 601.5 million (2009: DKK 496.1 million).
- Second-quarter EBITDA was DKK 18.9 million (2009: loss of DKK 8.4 million). First-half EBITDA was a loss of DKK 11.9 million (2009: loss of DKK 6.4 million). Both the second quarter of 2009 and the first half of 2009 were adversely affected by provisions totalling DKK 8.4 million.
- The assets in Russia are impaired with DKK 120 million due to a slower ramp-up of the utilisation of the production capacity and lower prices than initially anticipated. The outlook for the Russian operation and the market is still positive.
- The second-quarter result before tax was a loss of DKK 142.5 million (2009: loss of DKK 86.9 million). The first-half result before tax was a loss of DKK 217.6 million (2009: loss of DKK 125.0 million). Both the second quarter of 2009 and the first half of 2009 were adversely affected by impairment losses and provisions totalling DKK 40.4 million.
- Equity at 30 June 2010 was DKK 837.4 million.
- Net interest-bearing debt at 30 June 2010 amounted to DKK 617.4 million.
- Revised strategic direction with a focus on profitability and cash flow through concentration on key markets and key customers.
- New efficiency programs being implemented in order to reduce costs and improve working capital.
- For 2010, a negative result before tax and special items in the range of DKK 140-160 million. Free cash flows are expected to be neutral, and interest-bearing debt at the end of 2010 is consequently expected to be in the DKK 610 million region. Total investments are expected to be less than DKK 50 million.

*For further information please contact:
Hans Gormsen, CEO, or Niels Eldrup Meidahl, CFO, on tel. +45 35 27 02 00.*

This is a translation of the company's announcement in Danish. In case of inconsistency between the Danish text and this English translation, the Danish text shall prevail.

Financial highlights - H+H Group

(Amounts in DKK million)	Q2 2010	Q2 2009	H1 2010	H1 2009	Year 2009
Income statement					
Revenue	365.1	274.7	601.5	496.1	1,068.0
EBITDA	18.9	(8.4)	(11.9)	(6.4)	1.0
EBITA	(11.2)	(38.2)	(75.2)	(65.0)	(120.5)
Operating profit (loss) (EBIT)	(131.2)	(70.2)	(195.2)	(97.0)	(205.3)
Profit (loss) before tax	(142.5)	(86.9)	(217.6)	(125.0)	(263.5)
Balance sheet					
Non-current assets	1,381.6	1,560.9	1,381.6	1,560.9	1,495.4
Current assets	389.1	419.1	389.1	419.1	359.6
Total assets	1,770.7	1,980.0	1,770.7	1,980.0	1,855.0
Equity	837.4	647.9	837.4	647.9	958.2
Non-current liabilities	730.3	1,173.5	730.3	1,173.5	749.6
Current liabilities	203.0	158.6	203.0	158.6	147.2
Total equity and liabilities	1,770.7	1,980.0	1,770.7	1,980.0	1,855.0
Investments and debt					
Investments in non-current assets	5.1	20.3	13.5	67.2	104.6
Interest-bearing debt (net)	617.4	1,025.4	617.4	1,025.4	595.8
Cash flow					
Operating activities	(5.0)	(46.7)	(79.6)	(97.0)	(41.7)
Investing activities	(5.1)	(18.7)	(13.0)	(65.3)	(119.4)
Free cash flow	(10.1)	(65.4)	(92.6)	(162.3)	(161.1)
Financial ratios					
Gross margin	23.1%	20.9%	19.5%	23.6%	23.2%
Earnings per share	(12.4)	(68.8)	(18.4)	(95.9)	(94.6)
Diluted earnings per share	(12.4)	(68.8)	(18.4)	(95.9)	(94.6)
Return on equity, p.a.	(54.2%)	(44.0%)	(40.1%)	(29.5%)	(27.3%)
Share price, end of period, DKK	48.3	326.0	48.3	326.0	63.0
Book value per share, end of period, DKK	85.4	594.0	85.4	594.0	98.0
Solvency ratio	47.3%	32.7%	47.3%	32.7%	51.7%

With respect to recognition and measurement, the interim financial report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and which are expected to apply to the presentation of the full-year financial statements for 2010.

The interim financial statements have not been audited or reviewed.

Management's review

The second quarter of 2010 was characterised by a considerable improvement in sales volume, resulting in a 32.9% increase in revenue compared with the same period in 2009.

Despite the difficult start to the year due to the very cold winter in Q1, consolidated revenue for the first half of 2010 was 21.3% ahead of the same period in 2009, overall.

It is estimated that the level of activity for new housing units in most of the Group's markets has generally bottomed out, and there are indications of moderate increases. However, the Group's products are still facing considerable price pressure, primarily in Germany and Poland, and the overall financial performance is consequently still not satisfactory.

Revised strategic direction with a focus on profitability and cash flow through concentration on key markets and key customers.

New efficiency programs being implemented in order to reduce costs and improve working capital.

The following initiatives are being implemented:

- further reducing the Group's overhead costs;
- closing down non-strategic business entities that do not make a positive contribution to the company's operations;
- optimising utilisation of the company's manufacturing facilities by implementing an overall Lean project at the Group's factories;
- optimising the Group's working capital by reducing inventories, optimising internal procedures and negotiating more favourable terms of payment with customers and suppliers.

The above initiatives are not expected to have any significant non-recurring effects in 2010, but will have a positive effect on the operating result in 2011.

The assets in Russia are impaired with DKK 120 million due to a slower ramp-up of the utilisation of the production capacity and lower prices than initially anticipated. The outlook for the Russian operation and the market is positive.

Revenue

Second-quarter revenue was DKK 365.1 million versus DKK 274.7 million in the second quarter of 2009, up DKK 90.4 million or 32.9%. Expressed in local currency, revenue was 28.8% ahead of the second quarter of 2009. Revenue benefited from the development in GBP, PLN, SEK, CZK and RUB.

In the Western European segment, second-quarter 2010 revenue was significantly ahead in the UK and slightly ahead in the other Western European countries, with the exception of Germany, which saw a small decline in second-quarter 2010 revenue compared with the same period in 2009. Overall, revenue in Western Europe was DKK 257.3 million compared with DKK 199.4 million in the same period in 2009, up DKK

57.9 million or 29%. Expressed in local currency, revenue was 28.3 % ahead of the second quarter of 2009.

Revenue				
	Q2		H1	
(Amounts in DKK million)	2010	2009	2010	2009
Western Europe	257.3	199.5	424.5	355.9
Eastern Europe	107.8	75.2	177.0	140.2
Total	365.1	274.7	601.5	496.1

In the Eastern European segment, second-quarter 2010 revenue in Russia and the Czech Republic was significantly ahead of the same period in 2009. Revenue in Poland showed a moderate increase, while revenue in Ukraine and the Baltic States showed small declines. Overall, second-quarter 2010 revenue in Eastern Europe was DKK 107.8 million against DKK 75.2 million in the same period in 2009, up DKK 32.6 million or 43.3%. Expressed in local currency, revenue was 30.3% ahead of the second quarter of 2009.

First-half 2010 revenue was DKK 601.5 million versus DKK 496.1 million in the first half of 2009, up DKK 105.4 million or 21.2%.

Expressed in local currency, first-half 2010 revenue was up 16.4% compared with the first half of 2009. Recognised revenue benefited from the development in GBP, PLN, SEK, CZK and RUB.

Gross profit

The consolidated overall gross margin in the second quarter of 2010 was 23.1% versus 20.9% in the corresponding period in 2009. The second-quarter 2009 gross margin was adversely affected by inventory write-downs. Adjusted for these write-downs, the second-quarter 2009 gross margin would have been 23.0%.

The second-quarter 2010 gross margin showed an improvement due to the Group's positive development in the UK market and positive contributions from the Group's new factory in Russia and the recently rebuilt factory in the Czech Republic.

Pressure on prices continued in the second quarter of 2010, especially in Germany and Poland, which are two of the Group's principal markets. However, price pressure in these markets did not intensify compared with the first quarter of 2010.

The Group's gross margin for the first half of 2010 was 19.5%, overall, compared with 23.6% in the same period in 2009.

First-half 2010 gross margin was adversely affected by the hard winter in the first quarter and reduction of inventories.

Operating profit (loss) (EBIT)

The Group's second-quarter 2010 operating result was a loss of DKK 131.2 million compared with a loss of DKK 70.2 million in the same period in 2009. Adjusted for special items, this corresponds to an improvement of DKK 18,6 million.

Due to the start-up of the factory in Russia, the Group incurred higher selling costs and administrative expenses than in the same period in 2009.

Moreover, the start-up of the factory in Russia resulted in higher overall depreciation in the second quarter of 2010 than in the same period in 2009.

The Group's first-half 2010 operating result was a loss of DKK 195.2 million compared with a loss of DKK 97.0 million in the same period in 2009. Adjusted for special items, this corresponds to a decrease of DKK 18.6 million. This primarily reflects the very long and hard winter and continued price pressure in Germany and Poland.

Profit (loss) before tax

The second-quarter 2010 result before tax was a loss of DKK 142.5 million compared with a loss before tax of DKK 86.9 million in the second quarter of 2009. Adjusted for special items, this corresponds to an improvement of DKK 24.0 million.

Rising exchange rates, primarily PLN and RUB, depressed the result before tax, although these were partly offset by a strengthening GBP. Overall, the exchange rate development eroded the second-quarter 2010 result before tax by DKK 1.6 million compared with the same period in 2009.

The first-half 2010 result before tax was a loss of DKK 217.6 million compared with a loss before tax of DKK 125.0 million in the first half of 2009. Adjusted for special items, this corresponds to a decrease of DKK 13.0 million.

Profit (loss) before tax				
	Q2		H1	
(Amounts in DKK million)	2010	2009	2010	2009
Western Europe	1.3	(40.7)	(36.2)	(63.6)
Eastern Europe	(139.1)	(26.1)	(170.0)	(33.4)
Eliminations and unallocated items	(4.7)	(20.1)	(11.4)	(27.9)
Total	(142.5)	(86.9)	(217.6)	(125.0)

Investments

Second-quarter investments totalled DKK 5.1 million (2009: DKK 20.3 million). Overall in the first half of 2010, investments totalled DKK 13.5 million (2009: DKK 67.2 million). Total investments for the year are still expected to be less than DKK 50 million. The temporary hold on all new investment

initiatives, apart from necessary maintenance investments, has been maintained.

Investments in the second quarter were predominantly related to the roll-out of a new ERP system in the Group. All other investments were maintenance-related.

Investments				
	Q2		H1	
(Amounts in DKK million)	2010	2009	2010	2009
Western Europe	1.8	2.7	3.3	7.3
Eastern Europe	2.2	17.0	6.9	57.1
Unallocated items	1.1	0.6	3.3	2.8
Total	5.1	20.3	13.5	67.2

Financing

Net interest-bearing debt stood at DKK 617.4 million at 30 June 2010, up DKK 22 million since the start of the year. This included non-recurring expenses of DKK 15 million for prospectus and an onerous contract yet to be settled for which the debt at the end of 2009 had not been adjusted.

Total net interest-bearing debt is still expected to be in the DKK 610 million region at the end of the year.

Net financing costs amounted to DKK 11.3 million in the second quarter of 2010 compared with DKK 19.9 million in the second quarter of 2009. No financing costs were capitalised in the second quarter of 2010. In the corresponding period in 2009, financing costs totalling DKK 3.2 million were capitalised in connection with the Group's large investment projects. Besides interest expense and foreign exchange adjustments, financing costs in 2010 include amortisation of borrowing costs and payment for undrawn committed credit facilities.

Taxation

Income tax expense for the period has been partially estimated. Income of DKK 37.5 million has been recognised for the first half, corresponding to an effective tax rate of 17%.

The effective tax rate is made up of the various countries' tax rates. Furthermore, in some countries, no tax value has been recognised in respect of the loss, as it is considered uncertain that there will be a liability in future against which it can be offset.

Equity

Consolidated equity decreased by DKK 112.0 million in the second quarter. The result for the period depressed equity by DKK 121.1 million, while foreign exchange adjustments of investments added DKK 13.8 million to equity.

Equity		
	H1	
(Amounts in DKK million)	2010	2009
1 January	958.2	743.2
Profit (loss) for the period	(180.1)	(102.6)
Foreign exchange adjustments	63.8	6.2
Other adjustments	(4.5)	1.1
30 June	837.4	647.9

Segments

Western Europe

Second-quarter 2010 revenue in Western Europe amounted to DKK 257.3 million, up DKK 57.9 million or 29% on the second quarter of 2009. Expressed in local currency, the increase in revenue was 28.0%.

First-half 2010 revenue in Western Europe amounted to DKK 424.5 million, up DKK 68.6 million or 19.3% on the first half of 2009. Expressed in local currency, the increase in revenue was 17.2%.

The level of activity in the markets in Western Europe in the second quarter of 2010 was largely on a par with expectations, except in the UK. The level of activity in the UK was high. The price level in the German market is still under pressure. Prices in the other Western European markets are more stable. Except in the case of Germany, second-quarter revenue was ahead of the same period in 2009. Overall, the second quarter of 2010 matched expectations for Western Europe.

The second-quarter 2010 result before tax was a profit of DKK 1.3 million compared with a loss of DKK 40.7 million in the second quarter of 2009, an improvement of DKK 42.0 million. The improvement was largely due to impairment losses in Western Europe in the second quarter of 2009 totalling DKK 16.1 million.

The first-half 2010 result before tax for Western Europe was a loss of DKK 36.2 million versus a loss of DKK 63.7 million for the first half of 2009, an improvement of DKK 27.5 million, largely reflecting impairment losses totalling DKK 16.1 million in the first half of 2009.

The average selling prices realised on the volume sold in Western Europe in the second quarter of 2010 were at a lower level than in the second quarter of 2009.

It is estimated that the level of activity in the market for new housing units has now bottomed out, and there are indications

of a moderate increase. It is consequently expected that the increase in sales in the second quarter of 2010 compared with the same period in 2009 will continue into the third quarter of 2010, although the growth rates will be much lower than the 29% by which revenue increased in the second quarter of 2010.

Eastern Europe

Second-quarter 2010 revenue in Eastern Europe amounted to DKK 107.8 million, up DKK 32.6 million or 43.3% on the second quarter of 2009. Expressed in local currency, revenue was up 30.3%.

First-half 2010 revenue in Eastern Europe was DKK 177.0 million, up DKK 36.8 million or 26.2% on the first half of 2009. Expressed in local currency, revenue was up 14.5%.

The level of activity in Eastern Europe fell short of expectations in the Czech Republic, Russia and Poland. However, compared with 2009, revenue in the Eastern European segment benefited from the increased sales from the Group's new factory in Russia and the recently rebuilt factory in the Czech Republic. Prices were under pressure in both Poland and Russia, depressing earnings in Eastern Europe.

The assets in Russia are consequently impaired with DKK 120 million.

The second-quarter 2010 result before tax was a loss of DKK 139.1 million compared with a loss of DKK 26.1 million in the second quarter of 2009, a decrease of DKK 113.0 million. Adjusted for special items, this corresponds to an improvement of DKK 2.9 million. The improvement reflected higher revenue, overall, although affected by lower earnings per m3 of aircrete sold, higher depreciation and higher interest expense. The higher depreciation and interest expense reflected the completion of the factory in Russia. The rising PLN, RUB and CZK exchange rates also depressed the result. Overall, the rising exchange rates eroded the result before tax by DKK 1.6 million.

The first-half 2010 result before tax for Eastern Europe was a loss of DKK 170.0 million compared with a loss of DKK 33.3 million for the first half of 2009, corresponding to a decline of DKK 136.7 million.

Selling prices in the Polish market were realised at a lower level than in the second quarter of 2009, but on a par with the selling prices realised in the fourth quarter of 2009.

It is estimated that the level of activity in the market for new housing units in Eastern Europe has now also bottomed out, and there are indications of a moderate upturn. It is thus expected that the sales increase in the second quarter of 2010 compared with the same period in 2009 will continue into the third quarter of 2010, although the growth rates will be much lower than the 43% by which revenue increased in the second quarter of 2010. In addition, it is expected that the increased level of construction activity will make it possible to maintain the current price level for the rest of the year.

Eliminations and unallocated items

Unallocated net expenses amounted to DKK 4.7 million in the second quarter of 2010, a decrease of DKK 15.4 million on the same period last year.

Full-year profit outlook

The outlook for the 2010 financial year is a negative result before tax and special items in the range of DKK 140-160 million.

Free cash flows are expected to be neutral, and interest-bearing debt at the end of 2010 is consequently expected to be in the DKK 610 million region.

Total investments in 2010 are expected to be less than DKK 50 million.

Assumptions

Management believes that the principal assumptions for the Group's outlook for the 2010 financial year relate to:

- sales volumes and product mix;
- price competition in a number of the Group's markets;
- the general macroeconomic development;
- the development in the building materials market;
- exchange rates;
- distribution factors;
- production efficiency;
- realisation of cost savings;
- the weather.

The assumptions on which the H+H Group's outlook for the 2010 financial year are based include the following:

- an expectation that the general economic development will have stabilised and that the price level for the Group's products will increase slightly during the rest of the year;
- that agreements will be concluded with a number of new and existing customers, underpinning sales;
- that exchange rates, primarily for GBP, EUR, PLN, RUB and CZK, will be on a par with the exchange rates at the end of June 2010;
- stable energy and raw material prices compared with end-June 2010.

Statement by the Executive Board and the Board of Directors

The Board of Directors and the Executive Board have today considered and approved the interim financial report of H+H International A/S for the first half of 2010.

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

In our opinion, the interim financial statements give a true and fair view of the Group's assets, liabilities and financial position at 30 June 2010 and of the results of the Group's operations and consolidated cash flows for the period 1 January - 30 June 2010.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's operations and financial matters, the results for the period and the Group's financial position and a description of the most significant risks and elements of uncertainty which the Group faces.

Copenhagen, 31 August 2010

Executive Board

Hans Gormsen
CEO

Board of Directors

Anders C Karlsson
Chairman

Asbjørn Berge
Deputy Chairman

Stewart A Baseley

Heine Dalsgaard

Pierre-Yves Jullien

Henrik Lind

Forward-looking statements:

The forward-looking statements in this interim financial report reflect management's current expectations for certain future events and financial results. Statements regarding the future are, of course, subject to risks and uncertainties which may result in material deviations from expectations. Factors that may cause the actual results to deviate materially from expectations include but are not limited to general economic developments and developments in the financial markets, changes in pricing for aircrete products, the market's acceptance of new products, introduction of competing products and the integration of company acquisitions.

H+H International A/S is only required to update and adjust the expectations presented when this is required under Danish law, including the Danish Securities Trading, etc. Act.

Income statement

	Group				
(Amounts in DKK million)	Q2 2010	Q2 2009	H1 2010	H1 2009	Year 2009
Revenue	365.1	274.7	601.5	496.1	1.068.0
Production costs	(280.6)	(217.3)	(484.0)	(379.1)	(820.3)
Gross profit	84.5	57.4	117.5	117.0	247.7
Other external expenses	(65.6)	(61.1)	(129.4)	(118.7)	(230.9)
Other operating income and expenses	-	(4.7)	-	(4.7)	(15.8)
EBITDA	18.9	(8.4)	(11.9)	(6.4)	1.0
Depreciation and amortisation	(30.1)	(29.8)	(63.3)	(58.6)	(121.5)
EBITA	(11.2)	(38.2)	(75.2)	(65.0)	(120.5)
Impairment losses	-120,0	(32.0)	-120,0	(32.0)	(84.8)
EBIT	(131.2)	(70.2)	(195.2)	(97.0)	(205.3)
Net financing costs	(11.3)	(16.7)	(22.4)	(28.0)	(58.2)
Profit (loss) before tax	(142.5)	(86.9)	(217.6)	(125.0)	(263.5)
Income tax expense	21.4	13.3	37.5	22.4	31.0
Profit (loss) for the period	(121,1)	(73.6)	(180.1)	(102.6)	(232.5)
Earnings per share	(12.4)	(68.8)	(18.4)	(95.9)	(94.6)
Diluted earnings per share	(12.4)	(68.8)	(18.4)	(95.9)	(94.6)

Statement of comprehensive income

	Group				
(Amounts in DKK million)	Q2 2010	Q2 2009	H1 2010	H1 2009	Year 2009
Profit (loss) for the period	(121.1)	(73.6)	(180.1)	(102.6)	(232.5)
Other comprehensive income					
Foreign exchange adjustments, foreign enterprises	13.8	30.4	63.8	6.2	7.6
Tax on changes in equity	(4.9)	(0.1)	(4.9)	(0.3)	(0.4)
Value adjustments of hedging instruments	0.0	0.6	0.0	1.2	1.8
Total comprehensive income	(112.2)	(42.7)	(121.2)	(95.5)	(223.5)

Balance sheet

(Amounts in DKK million)	Group			
	30 June 2010	31 Dec 2009	30 June 2009	31 Dec 2008
ASSETS				
Non-current assets				
Intangible assets	112.7	109.7	104.8	117.5
Property, plant and equipment	1,233.2	1,341.3	1,425.4	1,418.9
Other non-current assets	35.7	44.4	30.7	22.5
Total non-current assets	1,381.6	1,495.4	1,560.9	1,558.9
Current assets				
Inventories	189.9	209.9	208.4	212.0
Receivables	189.6	132.1	204.0	144.2
Cash and cash equivalents	9.6	17.6	6.7	7.7
Total current assets	389.1	359.6	419.1	363.9
TOTAL ASSETS	1,770.7	1,855.0	1,980.0	1,922.8
EQUITY AND LIABILITIES				
Equity				
Share capital	490.5	490.5	109.0	109.0
Retained earnings	346.9	467.7	538.9	634.2
Other reserves	0.0	(107.6)	0.0	(116.5)
Total equity	837.4	958.2	647.9	743.2
Liabilities				
Non-current liabilities	730.3	749.6	1,173.5	1,015.7
Current liabilities	203.0	147.2	158.6	163.9
Total liabilities	933.3	896.8	1,332.1	1,179.6
TOTAL EQUITY AND LIABILITIES	1,770.7	1,855.0	1,980.0	1,922.8
Net interest-bearing debt	617.4	595.8	1,025.4	863.0

Notes

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Cash flow statement

(Amounts in DKK million)	Q2 2010	Q2 2009	H1 2010	H1 2009
Operating activities	(5.0)	(46.7)	(79.6)	(97.0)
Investing activities	(5.1)	(18.9)	(13.0)	(65.3)
Financing activities	11.7	63.4	83.8	161.5
Net increase (decrease) in cash and cash equivalents	1.6	(2.2)	(8.8)	(0.8)
Cash and cash equivalents, opening	7.3	8.7	17.6	7.7
Foreign exchange adjustments of cash and cash equivalents	0.7	0.2	0.8	(0.2)
Cash and cash equivalents at 30 June	9.6	6.7	9.6	6.7

Statement of changes in equity

(Amounts in DKK million)	Share capital	Translation reserve	Hedging reserve	Retained earnings	Proposed dividend	Total
Equity at 1 January 2010	490.5	(107.6)	0.0	575.3	0.0	958.2
Total changes in equity in 2010						
Total comprehensive income	0.0	58.9	0.0	(180.1)	0.0	(121.2)
Share-based payment	0.0	0.0	0.0	0.4	0.0	0.4
Total changes in equity in 2010	0.0	58.9	0.0	(179.7)	0.0	(120.8)
Equity at 30 June 2010	490.5	(48.7)	0.0	395.6	0.0	837.4
Equity at 1 January 2009	109.0	(115.1)	(1.4)	750.7	0.0	743.2
Total changes in equity in 2009						
Total comprehensive income	0.0	6.2	0.9	(102.6)	0.0	(95.5)
Share-based payment	0.0	0.0	0.0	0.2	0.0	0.2
Total changes in equity in 2009	0.0	6.2	0.9	(102.4)	0.0	(95.3)
Equity at 30 June 2009	109.0	(108.9)	-0.5	648.3	0.0	647.9

Notes

1 Accounting policies

The interim financial report for the period 1 January - 30 June 2010 is presented in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and additional Danish disclosure requirements for interim financial reports of listed companies. The application of IAS 34 means that the presentation is more limited than the presentation of a complete annual report, and that the recognition and measurement principles in the international financial reporting standards (IFRS) have been complied with. The accounting policies are consistent with those applied in the 2009 annual report. The 2009 annual report includes a full description of the accounting policies.

2 Significant accounting estimates and judgements

In the process of preparing the consolidated financial statements management makes a number of estimates and judgements concerning future events that have a material effect on the carrying amounts of assets and liabilities.

In the case of the H+H Group, significant changes in estimates and assumptions on which the calculations of the amounts are based may have a material effect on the measurement of assets, including impairment testing of goodwill and non-current assets.

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

Further details of the Group's principal risks and the external factors that may affect the Group are provided in the 2009 annual report.

3 Segment information

(Amounts in DKK million)

Q2 2010

	Western Europe			Eastern Europe			Reportable segments
	Production companies	Sales companies	Western Europe total	Production companies	Sales companies	Eastern Europe total	
Revenue, external	190.6	66.7	257.3	102.6	5.2	107.8	365.1
Revenue, internal	30.0	-	30.0	4.2	-	4.2	34.2
EBITDA	26.0	(1.6)	24.4	3.9	(1.4)	2.5	26.9
Depreciation and amortisation	(18.6)	(0.6)	(19.2)	(11.2)	-	(11.2)	(30.4)
EBITA	7.4	(2.1)	5.3	(7.3)	(1.4)	(8.7)	(3.4)
Impairment losses	-	-	-	(120.0)	-	(120.0)	(120.0)
Operating profit (loss) (EBIT)	7.4	(2.1)	5.3	(127.3)	(1.4)	(128.7)	(123.4)
Net financing costs	(3.5)	(0.5)	(4.0)	(10.1)	(0.3)	(10.4)	(14.4)
Profit (loss) before tax	3.9	(2.6)	1.3	(137.4)	(1.7)	(139.1)	(137.8)
Non-current assets	604.8	12.3	617.1	731.2	8.4	739.6	1,356.7
Investments in non-current assets	0.8	1.0	1.8	2.2	0.0	2.2	4.0
Assets	845.2	64.5	909.7	812.2	11.8	824.0	1,733.7
Equity	299.6	6.9	306.5	121.4	(17.1)	104.3	410.8
Liabilities	845.2	64.5	909.7	812.2	11.8	824.0	1,733.7

(Amounts in DKK million)

Q2 2009

	Western Europe			Eastern Europe			Reportable segments
	Production companies	Sales companies	Western Europe total	Production companies	Sales companies	Eastern Europe total	
Revenue, external	145.0	54.5	199.5	68.9	6.3	75.2	274.7
Revenue, internal	32.4	-	32.4	2.6	-	2.6	35.0
EBITDA	7.8	(4.5)	3.3	(2.7)	(1.2)	(3.9)	(0.6)
Depreciation and amortisation	(21.3)	(0.6)	(21.9)	(7.7)	-	(7.7)	(29.6)
EBITA	(13.5)	(5.2)	(18.7)	(10.4)	(1.2)	(11.6)	(30.3)
Impairment losses	(16.1)	-	(16.1)	-	(6.6)	(6.6)	(22.7)
Operating profit (loss) (EBIT)	(29.6)	(5.2)	(34.8)	(10.4)	(7.8)	(18.2)	(53.0)
Net financing costs	(5.6)	(0.3)	(5.9)	(7.5)	(0.4)	(7.9)	(13.8)
Profit (loss) before tax	(35.2)	(5.5)	(40.7)	(17.9)	(8.2)	(26.1)	(66.8)
Non-current assets	673.3	12.3	685.6	765.4	6.8	772.2	1,457.8
Investments in non-current assets	1.0	1.7	2.7	17.0	0.0	17.0	19.7
Assets	941.8	65.3	1,007.1	864.7	13.2	877.9	1,885.0
Equity	315.3	18.5	333.8	229.9	(9.9)	220.0	553.8
Liabilities	941.8	65.3	1,007.1	864.7	13.2	877.9	1,885.0

Reconciliation of reportable segments' results before tax

(Amounts in DKK million)	Q2	
	2010	2009
Segment profit (loss) before tax for reportable segments	(137.8)	(66.8)
Unallocated Group costs, corporate functions	(4.7)	(13.9)
Impairment losses, non-reportable segment	0.0	(9.3)
	(142.5)	(90.0)

Intersegment trading is based on market prices.

3 Segment information - continued

(Amounts in DKK million)							
H1 2010							
	Western Europe			Eastern Europe			Reportable segments
	Production companies	Sales companies	Western Europe total	Production companies	Sales companies	Eastern Europe total	
Revenue, external	320.0	104.5	424.5	169.9	7.1	177.0	601.5
Revenue, internal	48.3	-	48.3	6.0	-	6.0	54.3
EBITDA	22.8	(11.1)	11.7	(4.6)	(3.2)	(7.8)	3.9
Depreciation and amortisation	(39.0)	(1.2)	(40.2)	(22.7)	(0.1)	(22.8)	(63.0)
EBITA	(16.1)	(12.2)	(28.3)	(27.3)	(3.2)	(30.5)	(58.8)
Impairment losses	-	-	-	-120.0	-	-120.0	-120.0
Operating profit (loss) (EBIT)	(16.1)	(12.2)	(28.3)	(147.3)	(3.2)	(150.5)	(178.8)
Net financing costs	(7.0)	(0.9)	(7.9)	(18.9)	(0.6)	(19.5)	(27.4)
Profit (loss) before tax	(23.1)	(13.1)	(36.2)	(166.2)	(3.8)	(170.0)	(206.2)
Non-current assets	604.8	12.3	617.1	731.2	8.4	739.6	1,356.7
Investments in non-current assets	2.0	1.3	3.3	5.8	1.1	6.9	10.2
Assets	845.2	64.5	909.7	812.2	11.8	824.0	1,733.7
Equity	299.6	6.9	306.5	121.4	(17.1)	104.3	410.8
Liabilities	845.2	64.5	909.7	812.2	11.8	824.0	1,733.7

(Amounts in DKK million)							
H1 2009							
	Western Europe			Eastern Europe			Reportable segments
	Production companies	Sales companies	Western Europe total	Production companies	Sales companies	Eastern Europe total	
Revenue, external	253.3	102.6	355.9	130.9	9.3	140.2	496.1
Revenue, internal	65.9	-	65.9	5.7	-	5.7	71.6
EBITDA	17.5	(10.8)	6.7	4.4	(2.4)	2.0	8.7
Depreciation and amortisation	(42.4)	(1.2)	(43.6)	(14.5)	-	(14.5)	(58.1)
EBITA	(24.9)	(12.0)	(36.9)	(10.1)	(2.4)	(12.5)	(49.4)
Impairment losses	(16.1)	-	(16.1)	-	(6.6)	(6.6)	(22.7)
Operating profit (loss) (EBIT)	(41.0)	(12.0)	(53.0)	(10.1)	(9.0)	(19.1)	(72.1)
Net financing costs	(10.2)	(0.4)	(10.6)	(13.7)	(0.6)	(14.3)	(24.9)
Profit (loss) before tax	(51.3)	(12.4)	(63.7)	(23.8)	(9.6)	(33.4)	(97.1)
Non-current assets	673.3	12.3	685.6	765.4	6.8	772.2	1,457.8
Investments in non-current assets	4.4	2.9	7.3	56.9	0.2	57.1	64.4
Assets	941.8	65.3	1,007.1	864.7	13.2	877.9	1,885.0
Equity	315.3	18.5	333.8	229.9	(9.9)	220.0	553.8
Liabilities	941.8	65.3	1,007.1	864.7	13.2	877.9	1,885.0

Reconciliation of reportable segments' results before tax

(Amounts in DKK million)		
H1		
	2010	2009
Segment profit (loss) before tax for reportable segments	(206.2)	(97.1)
Unallocated Group costs, corporate functions	(11.4)	(18.6)
Impairment losses, non-reportable segment	0.0	(9.3)
	(217.6)	(125.0)

Intersegment trading is based on market prices.

Notes

4 Seasonal and cyclical fluctuations

Seasonal fluctuations

The sales pattern for the Group's products is seasonal. Sales in the second and third quarters are traditionally significantly higher than during the rest of the year. As a large proportion of the Group's cost base is not directly variable with revenue, deviations from projected sales may result in considerable fluctuations in the Group's results. Seasonal fluctuations also affect the Group's cash resources during the year.

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

Cyclical fluctuations

The economic development in the countries and markets in which the Group's products are sold has a major impact on demand for the Group's products. The Group's sales go predominantly to new dense low-rise housing, and the Group is consequently particularly vulnerable to fluctuations in the level of activity in this building segment. The Group's products are primarily sold in the geographical markets that are situated relatively close to its factories – the specific geographical market for each factory depends on local transport prices, the state of the infrastructure and the competitive situation, including the price level.

5 Pension obligations

The Group has defined benefit plans in the UK and Germany. The UK pension plans are managed by a pension fund to which payments are made, whereas the German pension plans are unfunded. Pension obligations relate predominantly to the plans in the UK, for which an updated actuarial calculation was prepared at 31 December 2009 that shows a shortfall of DKK 105 million net (the present value of the obligations exceeds the fair value of the plan assets).

As a result of the Group's application of the corridor approach, DKK 38 million of the shortfall has not been recognised in the balance sheet or in equity at 31 December 2009. New actuarial calculations are only carried out once a year, in connection with the preparation of the consolidated financial statements.

6 Financial resources and cash flow

Net interest-bearing debt stood at DKK 617.4 million at 30 June 2010, up DKK 21.6 million since the start of the year. The increase reflected the financial results and seasonal changes in working capital. Interest-bearing debt is expected to be in the DKK 610 million region at the end of 2010.

The company has a loan agreement with Danske Bank A/S with a total credit line equivalent to approx. DKK 1,000 million. The company will pay an instalment of DKK 50 million on the loan in each of the coming three quarters. The DKK 850 million facility will subsequently be committed for five years until 31 December 2014, and a short-term DKK 50 million uncommitted credit line.

Notes

7 Impairment losses

At 30 June 2010, the Group performed a review of the principal intangible assets and items of property, plant and equipment with a view to identifying any need for recognition of impairment losses. Selected activities that could give rise to a need to recognise impairment losses were thus been impairment tested.

The impairment tests were generally based on estimate for 2010 and strategy projections for 2011-2015 that have been approved by management. For the years after 2015, an estimated growth rate of 2-4 % has been applied. It is estimated that the growth rate will not exceed the long-term average growth rate in the Group's markets. An increasing gross margin has been estimated for the years 2011-2015, following which it is constant. A discount rate of between 8.1 % and 19.2 % (WACC) has been applied.

As a result of the impairment tests performed, an impairment loss has been recognised on the property, plant and equipment of the Russian entity. An overview of the principal assumptions on which the impairment test was based is set out below.

(Amounts in DKK million)	Russia
Property, plant and equipment at 30 June 2010	322.2
Average estimated annual revenue growth in the years 2011-2015 (CAGR)	26.6%
Estimated gross margin 2011-2015	38-44%
WACC	17.7-19.2%

The assets in Russia are impaired with DKK 120 million due to a slower ramp-up of the utilisation of the production capacity and lower prices than initially anticipated.

None of the other impairment tests at 30 June 2010 led to any need for the recognition of impairment losses. Management is consequently of the opinion that the recoverable amount of intangible assets and property, plant and equipment exceeds their carrying amount..

8 Special items

The results for both years are affected by special items. The table below shows special items for both years.

Amounts in DKK million	Q2		H1	
	2010	2009	2010	2009
Impairment losses and provisions relating to factory in the UK	0.0	19.0	0.0	19.0
Impairment losses on development projects	0.0	15.9	0.0	15.9
Value adjustments of inventories	0.0	5.5	0.0	5.5
Impairment loss on property, plant and equipment, Russia	120.0	0.0	120.0	0.0
Total	120.0	40.4	120.0	40.4

Notes

9 Events after the balance sheet date

At the end of August, a final settlement was reached in an action for damages comprising HSB Bostad AB versus H+H Sverige AB. HSB Bostad AB had advanced a claim for DKK 16 million, with the addition of interest, partly as a consequence of alleged defects in products supplied. The settlement does not have any effect on the H+H Group's financial statements.

No other events have occurred after the balance sheet date that will have a material effect on the company's financial standing..