Event: ISS Full Year 2014 Results

Date: 12 March 2014

Speakers: Nick Ward, Jeff Gravenhorst, Heine Dalsgaard

Call Duration: 01:00:17

Conference Ref No: SE00571

26-28 Hammersmith Grove / London W6 7PE
Tel: +44 (0)20 8742 6350 / Fax: +44 (0)20 8742 6355
www.arkadin.co.uk

OPERATOR: Welcome to the ISS full-year 2014 results conference call. At this time all participants are in a listen-only mode and later we will conduct a question and answer session. Please note that this conference is being recorded. Your conference will begin momentarily. A short introduction will now be played before the presentation begins and after the introduction the call will be turned over to Nick Ward, head of IR.

(Introduction played)

NICK WARD: Ladies and gentlemen, this is Nick Ward, head of Investor Relations at ISS, and I'd like to welcome you to our full-year 2014 result teleconference. Please be aware that the announcements, the annual report, as well as the slides used for this call can also be found on our website. Later today a replay will be available and we'll post a transcript of the call as soon as it is ready. I'd like to draw your attention to slide number 2 regarding forward-looking statements. The agenda for the call is outlined on slide 3. Presenting today will be Group CEO, Jeff Gravenhorst; and Group CFO, Heine Dalsgaard. We'll open for Q&A at the end of the presentation. And with that, I'll hand over to Jeff.

JEFF GRAVENHORST: Thank you, Nick, and welcome, everybody, to our 2014 results call. In 2014 ISS has made significant progress. We've improved our organisational structure to become more customer-centric, leading to improved service capabilities, cost efficiencies and improved customer satisfaction. We've demonstrated the resilience of our business model, delivering robust financial results. With our listing at the

Danish stock exchange we welcome thousands of new shareholders. And, for the second year of the row, ISS was named the world's best outsourcing provider.

With regards to our operating performance, organic growth was 2.5 per cent, in line with the guidance we updated in August. We continued to streamline our business and we completed 14 divestments of non-core activities during the year. The net effect of all these divestments was 6 per cent on the 2014 revenue. The currency reduced revenue by a further 2 per cent. Importantly, though, we delivered a 10-basis-point year-on-year improvement in our operating margin and a cash conversion of 98 per cent, both in line with the IPO guidance. These results, combined with a lower interest, led to a significantly improved net results, allowing us to pay a dividend of DKK 4.90 per share.

We're increasingly seeing the tangible benefits from our five strategic initiatives and the implementation continues to progress according to plan and with the positive effects on the margins coming through. Our ability to provide our full range of services to selected customers is one of the strategic priorities. The market for ISS grows faster than the overall industry and the margins are generally higher.

Currency-adjusted ISS growth was 10 per cent in 2014, driven by new contracts, including Credit Suisse, Nestlé, Molson Coors and further conversions from Single service to IFS. IFS now represents 31 per cent of our Group revenue, which is up from 26 per cent in 2013. Of more recent notable wins, that includes Vattenfallin in Germany, Swisscom in Switzerland, UBS in the UK, a contract with Business Services & IT Segment in the Netherlands and a sizeable remote-site contract in Australia.

Part of the success with IFS is our ability to provide this service on a global scale and our global corporate clients now represent 9 per cent of the Group revenue, up from 8 per cent in 2013, driven by a 5 per cent growth, currency-adjusted, predominately from existing customers. Emerging markets is another strategic priority for ISS. These markets continue to deliver attractive organic growth and now make up 24 per cent of the Group revenue in 2014. Despite the recent slowdown in certain countries in this region, emerging markets as a whole has delivered organic growth above Group average and consistently high margins. Our capital structures improved significantly post our IPO in March, thanks to divestments and refinancing.

In summary, while we initially expected a slightly higher organic growth in 2014, we are satisfied with our overall operational performance for the fully year, particularly given the tough macroeconomic conditions in Europe. Despite these conditions remaining challenging, we are confident in our prospects for 2015.

With that, I would like to hand over to Heine Dalsgaard to take us through the financial highlights.

HEINE DALSGAARD: Thank you, Jeff. Turning to slide 6, you'll see the highlights relating to our three key financial priorities, namely: (1) resilient organic growth, (2) improved operating margin and (3) strong cash conversion.

On organic growth we reached 2.5 per cent in 2014, in line with our August outlook commentary or around 2.4 per cent. Q4 organic growth was 2.7 per cent, driven by continued strong growth in IFS and emerging markets as well as double-digit growth in the Pacific region. This was partly offset by the challenging macroeconomic environment in Europe and difficult market conditions in certain European countries.

With respect to operating margin, we are satisfied with the continued improvement, which, on an LTM basis, has been trending slightly higher for five consecutive quarters now. The margin reached 5.6 per cent in 2014, in line with our original outlook to improve the margin versus the 5.5 per cent achieved in 2014. The Q4 margin was 6.5 per cent, or 27 basis points, higher than Q4 2013. This margin performance was driven together with a robust performance in Western Europe and margin increases in Latin America, North America and Eastern Europe. However, the year-on-year margin improvement in 2014 was positively impacted by a reduction in corporate costs due to timing differences between quarters during the year. The full-year increase of 10 basis points is a far better measure of our underlying margin momentum. Cash conversion for 2014 was 98 per cent, reflecting strong cash performance across the Group and cash generation remains a key priority for us in ISS.

On a final note on financial highlights, the net profit for the full year improved from a loss of DKK 397 million in 2013 to a gain of more than DKK 1 billion in 2014. In addition to the margin increase, we had a significant reduction in financial expenses because of the IPO and the refinancing initiatives and a significant reduction in the effective tax rate. The net result includes a DKK 420 million non-cash goodwill impairment in the Netherlands due to updated assumptions within the business plan. The challenges in the Netherlands are in line with our communication in previous quarters. We are moving in the right direction in the Netherlands but the turnaround is taking longer than initially expected.

With this, I would like to hand back to Jeff.

JEFF GRAVENHORST: Thank you, Heine. Please turn to slide number 8. Here we simply split the world in two, and it's clear that the emerging markets continues to be our growth engine, but let's look more into details at the regions, starting with Western Europe on slide number 9.

The macroeconomic conditions in the Eurozone have continued to provide some headwinds in the region. The demand for non-portfolio services remains relatively low and as a result of that the organic growth was broadly flat for 2014 and for Q4. It is important under these tough market conditions to focus on profitable growth, and we will not be changing growth at any price.

In the Netherlands we are solving the operational issues. So far our focus has been on streamlining the portfolio, reducing the cost base. We see progress and we are now shifting towards a more commercial agenda and we have a new management team, a local management team, in place to drive this. We're set to launch a significant new contract in the Netherlands in Q2 with a client within Business Services & IT Segment.

You will recall that the UK lost a large healthcare contract, which expired in November 2014. In 2015 this loss will, in isolation, have a negative organic growth impact on Western Europe of approximately 70 basis points and approximately 30-basis-point accrued level. On a positive note, though, the organic growth was supported by contract wins, especially in Turkey and Switzerland. In additional we have recently won significant contracts with Vattenfall, Swisscom and UBS in the UK.

Q4 operating margin was strong, 7.7 per cent. It was a little bit down on the year before. However, Q4 2013 did include a one-off gain related to some defined benefit plans in the Netherlands, although we made good progress in the region and the full-year margin improved a significant 20 basis points.

Turning to the Nordic region, the organic growth was 3 per cent in Q4, 2 per cent full year. Q4 was driven by strong performance in the IFS division in Denmark particularly. The picture elsewhere was a little bit more mixed, with the demand for non-portfolio still relatively low.

Q4 operating margin was again very strong, 8 per cent, 30 basis points down on 2013, reflecting a one-off positive adjustment in Sweden in Q4 in 2013, again a timing difference. In addition, Finland was impacted by the deterioration of the economic backdrop. However, for the full year Nordic margin was also up by 10 basis points. We've done an excellent job in this region to defend and expand our regions as a result of the strategic initiatives.

Please turn to slide 10. In Asia Q4 organic growth measure was 7 per cent. The growth was strong in India, Singapore, China and Indonesia. As I talked about last time, parts of Asia have some slowdown, in particular in Hong Kong, because of the political environment. We do have some recent wins within this regions, which will start in 2015. More than 1,000-bed large hospital in Singapore and also the big telecom communication provider in China, Huawei. The operating margin remained high, unchanged 7.7 per cent. We saw a marked improvement across seven countries during the year which was offset by a negative impact from the divestment of a high-margin Indian pest control business in January 2014. So over all a good performance.

Organic growth in Latin America slowed to 6 per cent in Q4. We saw double-digit growth in several countries - Chile, Argentina, Mexico - driven by start-ups and expansion. In Brazil we do see some slowdown, tougher macroeconomic conditions, but also some contract trimming coming through. Brazil makes up 44 per cent of the region and unfortunately the Brazilian macroeconomic condition is still expected to be somewhat slow to continue into 2015. We have in the region had a recent big regional airline win. Our discipline focus in this region on profitable growth helped to drive the year-on-year margin improvement in Latin America 130 basis points in Q4, 100 basis points for the full year. Again this was driven by a focus on our operational efficiencies and of course portfolio optimisation.

Please turn to page 11. Q4 in the Pacific growth was very strong, 13 per cent, benefiting from good, large start-ups and extensions, especially within the resource segment in the Australia. Prospects are still looking very good for this region. However, growth will slow down in 2015 as the contribution from the very large contracts start to annualise. Operating margin in Q4 declined 60 basis points to 5.7 per cent. Yet again there was a timing difference on some benefits in Q4 2013 that has affected the full-year impact. The margins are flat, 5 per cent in 2014 versus 5 per cent in 2013. However, this is significantly impacted by the divestment of high-margin business in pest control. Without that, we actually improved our margin in the region by 50 basis points in the year. So a good performance by the Pacific region.

North America, Q4 organic growth of 2 per cent, driven by improving non-portfolio revenues within our IFS contracts. Operating performance is improving under the stewardship of the new local management team and this has been a factor behind the increase of the margin of 190 basis points in Q4 and full year by 70 basis points. Finally Eastern Europe. Organic growth improved to 3 per cent in Q4. A number of countries have seen acceleration, which was partly offset by some country losses in Slovakia and Slovenia. Although our business in Russia remains relatively small, only 0.2 per cent of the Group revenue, we do actually see good growth in this business. The margin increased further to 8.2 per cent in Q4, again supported by strong operational efficiencies across the region.

With this, I would like to hand back to Heine for further details on the financial results for the quarter.

HEINE DALSGAARD: Thank you, Jeff. Please turn to slide 13. Starting on the left with Q4, total revenue declined 3.2 per cent year on year to DKK 19 billion. Organic growth was 2.7 per cent but was more than offset by the divestment, which impacted growth negatively by 6 per cent. A similar pattern emerged for the full year. Revenue declined 5.5 per cent to DKK 74.1 billion. The major divestments were landscaping in France and commercial security in the Pacific. In addition, we faced a negative impact of 2 per cent from currency adjustments primarily related to the Norwegian crown, Turkish lira and the Australian dollar. Organic growth in full year 2014 reached 2.5 per cent. Please turn to slide 14. For the full year we increased our operating margin by 10 basis points, thereby delivering on our stated guidance, as I already mentioned. Despite this, the operating profit declined 4 per cent year on year due to the divestments we have already discussed. The operating margin was 6.5 per cent in Q4, 27 basis points higher than Q4 2013. Our strategic initiatives, a robust performance in Western Europe and margin increases in Latin America, North America and Eastern Europe all helped. However, it is important to highlight that

Q4 2014 was positively impacted by lower corporate costs due to timing differences between the quarter within the year. Hence the 27-basis-point improvement was not entirely related to operational performance. Full-year margin improvement of 10 basis points is a far better guide to our underlying margin momentum. Corporate costs for 2014 were unchanged at 0.7 per cent of revenue but going forward we do expect to see a slight increase due to, among other things, the cost of being a listed company.

Please turn to slide 15. Some highlights from the income statement. We have already been through revenue and operating margin, so I'll go directly to the other expenses. Other operating income and expenses amounted to a net expense of DKK 160 million. This included DKK 166 million of restructuring costs related to our strategic initiatives and DKK 100 million of IPO-related costs. Offsetting this was a DKK 100 million net gain on divestments. Financial income and expenses amounted to DKK 1.3 billion, nearly DKK 1 billion lower than in 2013. Our interest expenses were reduced following the IPO and the repayment of our previous debt facilities. In Q4 financial income and expenses were DKK 273 million. This included a DKK 28 million negative FX effect primarily from emerging market currencies and DKK 69 million of accelerated amortisation of financing fees because of the repayment of the term loan B with the investment bonds in November. Adjusted for these non-recurring items, the underlying net financial income and expenses for the quarter was DKK 176 million or approximately DKK 700 million on an annualised basis.

Income taxes amounted to DKK 878 million in 2014, equivalent to an effective tax rate of 33 per cent. Adjusting of the non-deductible IPO costs as well as the effects there from interest limitation in Denmark, the underlying effective tax run-rate was approximately 30 per cent for both the full year and for Q4. Profit before goodwill impairment increased 77 per cent to more than DKK 1.8 billion in 2014. This is the lined item from which we are proposing to pay 50 per cent in dividends, equivalent to a total dividend payment of approximately DKK 910 million, or DKK 4.90 per share. Finally, as mentioned, we recognise the DKK 488 million non-cash goodwill impairment in Q4 of which DKK 420 million relates to the Netherlands. This we have already been through.

Please turn to slide 16. Cash flow from operations continued to be strong, though obviously impacted by the divestments. Cash conversion was slightly down from 102 per cent in 2013 to 98 per cent in 2014. In addition, we incurred some one-off payments related to IPO costs and tax payments. The negative impact from tax paid was twofold. First, there was a one-off payment incurred in 2014 relating to a specific divestment closed in 2013. Second, there was a one-off impact in Q4 2014 from a change in the timing of payment of on-account taxes in Denmark. Adjusting for these non-recurring items, the income taxes paid in 2014 would have been lower than 2013.

Going forward, tax-flow taxes are expected to be around the same level as the effective P&L tax of around 30 per cent. Cash flow from investing activities continued to be strong, both for the full year and Q4, driven by proceeds from divestments and our sustainably low level of capex at 1.1 per cent relative to revenue. The divestment effect in Q4 relates to the Nordic temporary labour and staffing activities which were sold for an enterprise value of 350 million Norwegian crowns. Cash proceeds from these divestments were received in early Q4. With respect to cash flow from financing activities, these declined significantly in 2014 due to a reduction in interest expenses paid as well as the net effects of IPO proceeds and the complete refinancing of our capital structure. Finally, as you can see, free cash flow improved more than 20 per cent in Q4 and for the full year, mainly as a result of the lower interest expenses paid.

Please turn to slide 17. Let me then wrap up our financial results by discussing shareholder returns. There are three important characteristics of our business model which enable us to generate attractive returns to our shareholders. (1)

Strong operational performance. We run a very resilient business, illustrated by stable organic growth throughout the cycle as well as improving operating margins. Combining this with an asset-light business model and a high conversion of cash means that we generate strong and stable cash flow.

(2) Disciplined and efficient balance sheet. We will maintain a disciplined and efficient balance sheet. Our financial objective is to maintain an investment-grade financial profile and reach a target leverage below 2.5 times pro-forma adjusted EBITDA. Taking seasonality in our cash flow throughout the year into consideration, we ended 2014 at 2.6 times, but please note that due to the normal seasonality in the cash flow and the dividend to be paid, leverage will increase in the first half of any given year and not decrease until towards year end. In Q4 we issued €1.2 billion worth of investment-grade bonds and very low fixed rates, while at the same time increasing our (Inaudible) and reaching a more diversified funding across bank and bond financing.

(3) Acquisitions and divestments. We continued to review our existing business for potential divestments of non-core activities. Similar, we are considering making selective competence-enhancing acquisitions, subject to tight strategic and financial filters. In January we carried out the first significant acquisition since 2010, when we acquired the UK, Irish and European activities of GS Hall, which is a leading technical services company. As we have said previously, the next step is that we are looking to add expertise in catering and technical services in the US and at some point possibly selected activities in emerging markets. We will continue to fund additional potential acquisitions out of our strong cash flow.

With these characteristics firmly in mind, we operate with a dividend policy targeting a payout ratio of approximately 50 per cent of our profit before goodwill impairment. For 2014 we propose a dividend of DKK 4.90 per share to be paid in April 2015 in connection with the AGM. Once we have reached our financial leverage target we will maintain an efficient balance sheet through potential additional returns to our shareholders.

With this I would like to hand back to Jeff, who will discuss some strategic points.

JEFF GRAVENHORST: Thank you, Heine. Please turn to slide number 19. I would now like to take you through some strategic highlights, explaining why we believe that the facilities services market is very attractive and why our model is well positioned to continue to deliver resilient growth and improved margins.

We operate in a vast market, a market with an estimated value of more than $ 1 trillion. In this market we've chosen to have a focused and very differentiated approach. This differentiation is basically based on two main arguments: our ability to self-deliver all services to run the customer's facilities, being it single service or integrated, and then, of course, our ability to integrate all of these services. Those are the two main drivers of our differentiation today.

This approach is simply based on the customer needs. At the same time, this is also the model that we believe gives the best value creation for ISS and for its shareholders. There's no doubt that today the delivery of facility services is becoming more and more sophisticated. It is no longer a need just to go and do some cleaning or make a sandwich or change the lightbulb. The need has developed over the years because customers are becoming more focusing, actually more and more, on their core so that they can optimise their businesses. With that, of course, the facilities have only one purpose. It is now perceived as a tool that needs to be efficient and to create the right environment for the employees to make a very good and smooth core-focused organisation for our clients.

Today that actually also includes a demand for compliance in the customer's business models across the Group. Basically what the customers are asking for today is accountability. They're asking for end-user centricity, they're asking for efficient and consistent delivery that can optimise their buildings with 100 per cent up time. They also need to have flexibility, because the world is no longer as stable as it was, so we need to be able to flex up and down, actually be scalable, together with our clients.

We also need to help the customers to reduce their risk, to protect their brand from any bad stories or publicity that goes around, but definitely also just living up to health and safety requirements. With all this, transparency in the delivery is becoming more and more important. This is both from a convenience perspective, from a second point of contact perspective, common processes, IT support, all of which can be delivered by integration of services which will create also further efficiencies and thereby save costs for the clients.

All of the above can actually only be guaranteed by somebody who delivers these services with their own employees. It simply cannot be delivered by competitors who do not have the scale in scope or in services or in geography, who do not have the self-delivery capability, who do not have the processes or the technology necessary to meet the increasingly sophisticated needs of our customers. Our ability to deliver this market-leading value proposition gives us clearly higher barriers to entry. We're constantly improving our differentiated offering, and in January we significantly strengthened our technical capabilities through the acquisition of GS Hall. On top of this, we're currently developing tools, technology, partnerships, to continue to enhance this proposition.

If you turn to slide 20, I would like to illustrate how this differentiated proposition is of real value to one of our key ISS customers. I know it's a little bit of a busy slide, but it's just demonstrating how we're taking a longstanding relation with one customer over the last four decades and how the relationship has actually developed. If we start back in the 1970s, there's no doubt that this was a single-service delivery of cleaning services. Basically an input spec contract is defining the number of hours that we needed to deliver to a customer to do some cleaning. Coming up through the 1970s up towards 2000, of course it's evolved to become more service oriented, i.e. going from number of hours to actually having a clean environment. In 2005 Nordea actually wanted to get some benefits of scale by consolidating this into a regional contract and then Nordea became a key account of multi-services where we took over more services and more geographical span and gave the customer the cost benefits from that perspective.

But more recently the relationship has moved into the strategic partnership. In a bank, as you might know, compliance is a very key factor. Sometimes it's even more important to document what we do - obviously not quite - than it is to actually deliver it; at least it is as important. This is what we understand is the need of the customer. But not only that. We can deliver all that compliance they need and the services to Nordea, as is the case, but today we also have to make sure that the end users are motivated. So ISS is today appraised and financially incentivised to deliver continuous improvement in the end-user satisfaction levels, i.e. the experience of the Nordea employees, and these employees are Nordea's key assets and Nordea is convinced that enriching the workplace experience is a key component to their job satisfaction, motivation, productivity and retention. In that respect ISS performance is of course key. That's why today there is a higher barrier to entry than ever before.

Please turn to slide number 21. Now, to improve our offering, we are focused on enhancing our capabilities within technical services. Today we have good self-delivery capabilities with thousands of engineers and technicians across the world. But just to take a pause on that and say what do we actually do. We've illustrated that with the range of services that you can see on this also a little bit busy slide. At the lower end of property maintenance, it's basic maintenance like handyman work, changing fixtures, fittings, paintwork, etc. At the higher end it incorporates maintenance of air-conditioning systems, power supply, data rooms and ensuring 100 per cent uptime of the client's facilities. But at the more sophisticated end it is the management of energy consumption, water usage, emissions, reducing costs for the clients and helping them to achieve their CSR commitments.

To strengthen this service we acquired the UK, Irish and European activities of GS Hall. The integration process has begun and we're progressing according to plan. Once this is done, we expect to spread these technical self-delivery capabilities to strengthen even further the European part of our business and to start insourcing technical services with certain cases where previously these were subcontracted. We're highly confident that this acquisition will further increase our competitiveness. Please turn to slide number 22. Finally I would like to address some of the ways we drive efficiencies and become smarter in the way we serve our customers. On the global procurement project, we have now successful finalised both phase 1 and 2 from a contract negotiation perspective. These phases cover a total of 8 billion in addressable spend, on which we expect to be able to realise savings of between DKK 350 million to DKK 450 million, or in other words around 5 per cent. These savings will ramp up over the 2014 - 2018 period. During 2015 we will be launching the third phase which should deliver these additional savings over time.

We are pleased with the progress on savings that are coming through, but it's important to reiterate that while some of these savings will go towards increased margins, other savings will be shared with clients and reinvested in the business in order to maintain and strengthen our competitiveness.

On top of these procurement project we have a business process outsourcing project that has been launched, as we said last time, in the Nordic region. It's progressing according to plan. The project covers certain finance accounting processes and the target is to improve our financial processes as well as cost savings. We plan to launch the project in additional European countries in 2015. With regards to customer segmentation and organisational structure, the purpose is to become more customer-oriented organisation with a more effective cost structure. Put simply, it's about reducing overhead by taking out layers of management and administration and at the same time achieve greater focus on our customers. By the end of 2014 we completed the analysis phase in ten countries across Nordic, Western Europe, Latin America and Pacific. That represents 56 per cent of the Group revenue. Following this analysis phase, implementation has been initiated in seven countries and we're not in the process of rolling this programme out to the rest of the world during 2015. We are very pleased with the result of this initiative so far and it's running according to plan.

To summarise, our integrated, self-delivery approach is generally differentiated and driven by customer needs. We have enhanced our technical services capabilities, which gives us a real edge in the service line that is increasingly important within ISS. Finally, we are extracting efficiencies and becoming even more competitive and smarter in the way we serve our clients.

I would like now to finish with our 2015 outlook on slide 24. With regards to organic growth, we expect to grow for 2015 between 2 per cent to 4 per cent. We expect continued growth in existing portfolios and growth from the launch of new contracts won in recent months, especially within the IFS division. We anticipate only a very modest pickup in the economic growth across the markets and believe that he conditions in Europe will remain challenging. As such, we remain cautious on the likelihood of a meaningful pickup in the non-portfolio services. Our emerging markets activities should continue to be a source of healthy growth. Taking account of divestment, the acquisition of GS Hall and FX movements to date, we expect to deliver a total revenue growth between 5 per cent to 7 per cent in 2015. We will maintain our focus on the sustain margin improvement throughout 2015, which will be supporting by the ongoing strategic initiatives. We expect to deliver a margin for 2015 that is higher than the 5.6 per cent delivered in 2014. Finally, cash conversion remains a priority and we expect our cash conversion to be at the end of the year above 90 per cent. So all in all we're pleased with the progress in 2014 and are positive with regards to the outlook for 2015.

With this, I would like to open for the Q&A.

OPERATOR: Okay, thank you. We will now begin the question and answer session. If you have a question, please press 0 then 1 on your touchtone phone. If you wish to be removed from the queue, please press 0 then 2. If you're using a speakerphone you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press 0, then 1 on your touchtone phone. Okay, we have a first question coming in from Mr Jonas Guldborg from Carnegie. Please go ahead.

JONAS GULDBORG: Thank you. Hello, everybody. I would like to start with the strategic initiatives in your procurement programme. How big a cost base are you addressing in phase 3 and should we expect the same amount of savings, i.e. around 5 per cent? Then secondly could you elaborate a bit on organic growth perspectives in the Pacific in 2015 following very strong performance in Australia in 2014? And the last question would be with the challenges you have in Brazil will you be able to expand your margin in 2015 in Latin America? Thank you.

JEFF GRAVENHORST: If we start with the Pacific growth first, we have actually a good walk-in to 2015 on the back of good contract wins in 2014, also within the resource segment. What we're saying is that we did have a lot of start-up last year and that drove a record high organic growth in the region. Obviously Australia is impacted macro economically from the oil prices at the moment and we would expect some lower activities in some of the mining sectors, but over all we still actually see good growth also in the Pacific region for 2015. We don't give that specific target as such but we do continue to see good growth.

With the strategic initiatives, particularly regarding the third-phase procurement project, over all we have around a DKK 22 billion external spend, which we addressed, and we've addressed the first two times, DKK 4 billion, which were the easier ones to deal with, which has a bigger impact across the Group. Right now we're looking at around DKK 2 billion in third phase. We haven't actually targeted the savings yet because it's still early days, but we're targeting additional savings.

On the third question about Brazil, basically I think we focus more on the region in your question, can we continue to see a margin expansion in that. We are very focused on margin defending and building over growth, so we're very particular on not just getting in there and getting large contracts and not defending out margin, so we will be very focused on the margin expansion in the region.

JONAS GULDBORG: Okay, thank you.

OPERATOR: Okay, and we have a next question coming from Mr Michael Rasmussen from ABG. Please go ahead.

MICHAEL RASMUSSEN: Yes, thank you very much. First of all I'd like to talk a little bit about how late cyclical your business is. I.e. if and when we see a pickup in nominal GDP growth in whatever region or inflation, how long would it take before it became visible in your numbers? And as an add-on question on that part, do you also assume organic growth in Western Europe to be around zero in 2015, like in 2014, in your guidance?

Then secondly if you could give us a bit of a contract bid pipeline update on the large IFS contracts, a little bit like you talked about the five contracts last year? In connection with that, are there any contracts that you have lost recently besides the one in the UK that you've talked about previously? Thank you.

JEFF GRAVENHORST: Just to be sure, your second question was about the global corporate clients, the pipeline?

MICHAEL RASMUSSEN: Yes, please.

JEFF GRAVENHORST: If you start from the top of the cyclical business, when does the pickup in GDP actually hit ISS, I'm afraid I have to be a little bit more complicated, because we serve a lot of different industries across Europe or basically across the world. Typical what needs to happen is that our clients pick up activity and when they pick up activity then there is more likelihood of additional projects and so forth. That's a good source of non-portfolio work to support our higher end of the guidance for 2014.

In terms of new business won, I think it's difficult to say exactly when does the pickup in GDP hit the ISS books for the same reason. What we do say is that it's probably a little bit too early to see the European recovery, so we're a little bit cautious in looking at that. That's a mixed challenge. With that, we're not guiding specifically on any regions with our organic growth target here but we're saying we're within the 2 per cent to 4 per cent. So, of course, if Europe picks up then we will probably see an impact on the non-portfolio as the first thing, and that's what it takes also to win large contracts at the back of the year to hit the upper end of our guidance.

The IFS business, though, is one that can help us to counter any kind of macroeconomic situation, because we have grown the IFS business by 10 per cent in 2014, despite the challenges in Europe. The reason for this is of course that that can help the customers to become more efficient, to give them better focus on their business and actually better compliance in the way that all these services are delivered across their business, but at the same time, of course, cost savings. That's why that programme is very popular also in the Eurozone.

If we go into the IFS business on the pipeline for the larger accounts, I think we've had actually a very good run on the large regional and local and international contracts for that matter in the last few months. It's very difficult to differentiate between what is a global contract and what is a regional contract. Nevertheless, all the Vattenfall, the Bankia, we had the UBS in the UK for that matter, also a result of the pipelines that we talked about earlier in 2014.

Having said that, there are global contracts which are focused on global delivery across the world and we have the usual pipelines which include around four to five active bits that we work with. Some of them will turn into regional contracts as usual and some of them will of course hopefully come through during the year. So it's the same level as what we were seeing earlier.

Lost contracts, the last question, on the major losses there is the UK hospital that we talked about last year. So we had the Statoil contract for last year, we had the healthcare contract for last year but there are no new major losses that are coming through that we see. Of course, there will always be something that is up for tender across the world, but of large impact none. So when we go into the beginning of this year there's the spill-over of the effect of those two losses in the beginning of year for Statoil and up to November of healthcare, but again offset by a number of good strong wins in the latter part of 2014.

MICHAEL RASMUSSEN: Great, thank you very much.

OPERATOR: And the next question in line comes from Mr Staffan Åberg from Handelsbanken. Please go ahead.

STAFFAN ÅBERG: Hello, I've got two topics for you. First, looking at the corporate costs which landed at 0.7% of Group revenues in 2014, what do you believe that relation will be in 2015 and why? And then what is your current strategy to grow in the US and are acquisitions there less attractive now given the strong US dollar? That's all for me. Thanks.

JEFF GRAVENHORST: Yes, so you're absolutely right. For 2014 corporate costs remained stable at 0.7 per cent of revenue. For 2015 we do expect corporate costs to go up above, among other things due to the cost of being listed and we're most likely looking into a level about 0.8 per cent, so slightly up.

STAFFAN ÅBERG: Okay, and about the US?

JEFF GRAVENHORST: Of course, this is to strengthen our delivery capabilities across the world and also to harvest on the procurement benefits. That is the focus of the investments in corporate costs.

On a strategy in the US, the question has the strength of the dollar made it less attractive to acquire businesses in the US. Over all you can say of in Danish krone it becomes more expensive but it also becomes a higher earning, so from that perspective as long as the multiples don't increase then I think it's as attractive as has been. I think it's much more important to look at why. There are big benefits to us in insourcing to self-delivery capability, as you heard me talk about now. It's important for our clients that we deliver ourselves. Secondly, we actually make more money out of delivering the services ourselves, so with that there are big synergies from acquiring catering or technical services in the US, so we continue to look for those as we speak.

STAFFAN ÅBERG: Okay. Thank you.

OPERATOR: Okay, and the next question comes from Mr Paul Checketts from Barclays Capital. Please go ahead.

PAUL CHECKETTS: Good morning, everyone. I've got two questions please. The first is regarding the outlook. Maybe if you could flesh out how you expect organic growth to go across the year. And on the margins, we've seen some timing differences in 2014. What should we bear in mind for margins as we go through 2015?

And then the second question is on the countries I think in Europe that you referred to as difficult. Clearly the Netherlands falls into that bucket, but can you maybe go into a bit more detail on where you're having some challenges elsewhere, and what's happening, what you intend to do, please? Thanks.

JEFF GRAVENHORST: Thank you, Paul. On the outlook for the organic growth, if we start with that, how does that pan out through the year. Obviously we're guiding for the full year organic growth of 2 per cent to 4 per cent. When we look at the start of the year we have to of course recall that the impact from the loss of the UK hospital of course comes into the first quarter. Having said that, we also have the strong start-ups of Swisscom and other major contracts already here in the first quarter, so over all we would expect to see something similar to what we saw in the first quarter coming out. Then it will probably from there gradually build up. In order to achieve the higher end of the range, though, as we said earlier, we need to see a little bit more pickup in the non-portfolio from the European Som(?). So probably getting in the first quarter more in line with the last quarter of last year.

In regards to margin it's a little bit more evenly spread, so that's what we expect to see for this year. In Europe and the operational difficulties, I think first and foremost when we talk about Europe being challenged, we talked about it from a macroeconomic point of view. We're still very strong over all. ISS is in a good position, we are very strong, ISS capabilities in the European Som, and we've been able to grow that business also quite significantly during the last year. And the contracts win that we have mentioned, Bankia in Spain, UBS in the UK, Swisscom in Switzerland. We also have another large bank coming on board, who we cannot name, that will come in in the second quarter this year. We're quite pleased with the development in Europe over all and particularly also with the strong margin countries.

We do have somewhere some operational difficulties for a while and that is where the labour market is very difficult to work with and somewhat rigid, and that is the Eurozone, unfortunately, the heart of it, Netherlands being one of them. France actually is not an issue from that perspectives any more. We have a good operation and a good team in place, but Netherlands is still an operational issue.

Now, what we have done is we've been focusing a lot on the cost base, reducing and focusing the portfolio and thereby made some divestments, and we've done that part of the job. Now it's about commercially move on, and that's why we've exchanged now from the Danish management team that was there to really focus the cost side. Now it's about the commercial side. We have one significant contract in the Netherlands that we start up in the second quarter this year, so we're very happy with that, but it really is about the commercial agenda. From that perspective I'm actually okay.

The rest of Eurozone, only to say (Several inaudible words) by challenging is just the macroeconomics doesn't give us tailwind. We have a strong proposition.

PAUL CHECKETTS: Great. Just one extra question. What sort of wage inflation are you seeing broadly across the portfolio at the moment?

JEFF GRAVENHORST: It actually differs a lot, not only region by region. Obviously we see wage inflation in the emerging markets being higher, but even there you'll have a big spread. You see a little bit less in 2014 than what we've seen earlier on average, but in general they can be a little bit all over the place. This is why we are a local business, we're very focused on it and we're extremely good at passing this on to our customers.

When we have to take some of it on our own shoulders, we're very good at optimising our efficiencies, as we've shown during the last 100 years. So this is something we're very geared to deal with.

PAUL CHECKETTS: I suppose I was asking have you seen a pickup in wage inflation expectations across the European businesses.

JEFF GRAVENHORST: No. You will have the odd country where the economy is going well. There you have little bit more wage inflation, but then you have others where it's not and that's not a lot. So again I'll just say we of course act in line with what happens country by country.

PAUL CHECKETTS: Understood. Thanks.

OPERATOR: And the next question comes from Mr Kristian Godiksen from SEB. Please go ahead.

KRISTIAN GODIKSEN: Yes, thank you, this is Kristian. I was just wondering if you maybe could confirm that you have lowered your exposure to your intercompany loan and the hedging of that in Brazil. Then secondly if you maybe could elaborate a bit on how far you are with the customer segmentation programme in respect of the analysis phase. So you reached 56 per cent this year, so what is your assumption for where you are in the 2015? Then thirdly and lastly maybe if you could elaborate a bit on what the potential is for your North American business with the current platform, i.e. not making any acquisitions of either technical services or catering? Thank you.

JEFF GRAVENHORST: Yes. Heine, if you take the first one?

HEINE DALSGAARD: with respect to FX, and again starting here, it's important to notice the natural hedging we've got in our P&L, so that makes, from a P&L point of view, the most significant FX risk we've got is related to the translation into DKK. In terms of balance sheet, we are fully hedged on our debt side towards the DKK either directly or indirectly via proxy hedges.

You're absolutely right we do have and have had the exposure in the Brazilian real where the proxy hits hasn't worked because the real and the dollar have gone in the opposite direction. We have reduced our exposure in the Brazilian real in terms of intercompany balances and we have done that with increases in the equity. So the short answer is that we are moving in the right direction and we have reduced our intercompany exposure towards the Brazilian real.

JEFF GRAVENHORST: On the customer segmentation, as we mentioned in the presentation, we have done, as you say, 56 per cent at the end of 20914 on the analysis phase and we're moving into now the restructuring phase, so what does it mean and harvesting the benefits from that. The focus of course is to continue to roll this out throughout the rest of the world during 2015 and we will be close to having covered all major countries, at least above the 75 per cent as we get to the end of the year, probably more so. But now it's about really harvesting on the first part of the analysis phase.

In regards to the North American business, on the current basis I think it's important to know we do have some major clients that we can build our relationship with and continue to expand our services with. It is important for us to strengthen the business to really have growth perspectives there of any laudable magnitude, so it is important that we get in to improve our self-delivery capabilities. Other than that, we don't specifically on the country but that is what we see.

KRISTIAN GODIKSEN: Okay. Many thanks, guys.

OPERATOR: And we have a next question in line coming from Mr Matija Gergolet from Goldman Sachs. Please go ahead.

MATIJA GERGOLET: yes, good afternoon. Two quick questions from me. The first one relates to page 17, where you make the comment that now you will focus on additional shareholder returns to drive balance-sheet efficiency. Could you just expand a little bit how you're looking at your balance sheet and basically at what level of gearing or net debt or EBITDA would you consider additional shareholder returns? Are we looking at now 2 times net debt to EBITDA, 1.5 times net debt to EBITDA? Is there a level you have in mind beyond which you say, "Okay, if we're below that level then we should return some cash to shareholders or capital to shareholders"?

Secondly, just one follow-up on wage inflation, particularly in Europe. I'm just interested to know if you have any impact from the introduction of the minimum wage in Germany, if it's material. I appreciate your point that you should be able to pass that on to the consumers, but just I would be interested to have some colour around it. Thank you.

JEFF GRAVENHORST: The first one is return to shareholders, so, Heine, if you take that.

HEINE DALSGAARD: Sure. So, as you know, we closed 2014 at 2.6 times. Remember that due to seasonality in the cash flow throughout the year our leverage will increase in the first part of the year and not go down before towards the year-end. So what we're targeting for now is to go below 2.5 times adjusted EBITDA. Once we're there, comfortably below 2.5 times, we don't see any reason to continue to de-lever. Once we're there and comfortably below, we will start a potential additional shareholder returns.

MATIJA GERGOLET: On this "comfortably", does it imply below 2 times as well, or --

JEFF GRAVENHORST: On the wage inflation, minimum wage in Germany, actually over all we do of course have countries where we experience the introduction of minimum wage. Generally we are not that far off a minimal wage level that would be introduced. When it has an impact, of course, it has been passed on to the customer. So from that perspective it's a positive to us when it happens. In Germany we don't see any major impact from that on the business.

MATIJA GERGOLET: Okay. Sorry, just on the previous point of the "comfortably below", do we need to wait for, say, 2 times, 1.5 times, or just below --

HEINE DALSGAARD: It's difficult to answer specifically. We are right now at 2.6 times. We want to go down below 2.5. Because of seasonality throughout the year, we will not be below before towards the year-end. Once we get closer to that we'll come back with some more colour on it, but it's sustainably below, taking quarterly seasonality into consideration. So we don't see us going below 2, just to mention that as a specific number.

MATIJA GERGOLET: Okay. Thank you very much. Very clear, thank you.

OPERATOR: Okay, and there is a last question in line form Mr Jesper Jensen from Nordea. Please go ahead.

JESPER JENSEN: I had a couple of questions. The first one is, I'm just, basically, curious on GS Hall. Why didn't you also buy the US operations of this business? Seems like a very good strategic fit, reasonable multiple, and so on. Maybe we can just start with that one.

JEFF GRAVENHORST: Yes, I think it's a matter of focus first and foremost and then it's a matter of what's for sale, to be honest. Here we had the possibility to buy the European businesses and less so on the US side, so it really is a matter of what's doable.

JESPER JENSEN: Okay, that's clear. Secondly I'm just wondering about how you see the competitive environment at the moment. You've obviously also previously talked about focusing on profitable growth. Are there any significant changes in the way your competitors behave in the marketplace at the moment, or is everything fairly stable?

JEFF GRAVENHORST: Over all I don't think there are any changes. I think there are some actions and we can see that the actions are supporting the path that we've been on for a long time. So you can see actions from competitors going more and more into the same arena of being able to self-deliver and expanding the product services. I actually see that as a benefit. I think in order to have an effective market, also from a positive side it's actually good to have they competition there, to be honest. It is a vast market, so it is a huge opportunity and no one has more than 2 per cent market share. But the only actions I see are just confirming that the strategy that we're delivering on right now is the right one.

JESPER JENSEN: Okay, makes sense. And the last one is really, I guess, one for you, Heine, in terms of the margin, and the underlying margin momentum that you're alluding to being around the 10 basis points. If we look at your results and your accounts, if we add together, I guess, the benefit from the owner's contracts, the GS Hall acquisition and also the cost savings that are coming through, it's quite easy to get to a level that's somewhere above 10 basis points in terms of underlying margin improvement. So I'm just wondering, obviously you talked it's more expensive being a listed company but what's pulling things in the other direction? Anything you can give us there?

HEINE DALSGAARD: We have discussed this several times and, as you know, all the benefits we're getting are not going to our bottom line. There are parts of it that we are sharing with our customers, and really our margin is not a margin that jumps up on an annualise basis, 20 or 30 basis points. So what we look in to, and we do have, as I said, costs going in the other direction. There's the cost of being listed, there's costs of investing in procurement programmes and in rolling out strategic initiatives. So on balance what we look into is sustainable margin improvements in line with what we have seen for the full year.

JEFF GRAVENHORST: Just one thing Jesper, on the owner's contract. That is a like-for-like over the year before.

JESPER JENSEN: Yes. Thank you.

OPERATOR: There are no further questions. As a reminder, it is 01 to ask a question. There are no further questions at this time. This will conclude today's conference call. Thank you for joining.