Thursday, 21 August 2014

(10.00 am)

Martin Kjær Hansen: Ladies and gentlemen, my name is Martin Kjær Hansen and I would like to welcome you to the teleconference for our Q2 results. Please be aware that the announcement and report as well as the slides used for this call can be found on the website. During the day a replay will also be available on the website and later on also a transcript of this call.

I would like to briefly draw your attention to slide number 2 regarding the forward looking statements. If you turn to slide number 3, you will find the agenda for this call. We will take you through the highlights of the quarter, followed by an update on the regional performance. We will go through the financial results in more detail, followed by an update on the strategic initiatives. We will finish the call with the outlook for 2014 and finally open for a Q&A session.

Presenting today will be Group CEO, Jeff Gravenhorst, and Group CFO, Heine Dalsgaard.

I will start the presentation by handing over to Group CEO, Jeff Gravenhorst.

JEFF GRAVENHORST: Thank you, Martin. If I could please ask you to turn to slide number 5.

For the second quarter of 2014 we achieved resilient and profitable organic growth in line with the market. This growth has been affected by soft markets predominantly in Europe and is therefore slightly below our expectation. We are very pleased with the progress of our strategic initiatives and our focus on profitable growth because this has led us to an increase of 25 basis points in our operating margin for Q2 on a like for like basis over last year.

We have achieved an excellent LTM cash conversion of 98 per cent and all of this, combined with the impact of our IPO on the capital structure, leads to a significantly improved net result.

I would like to mention, we are increasingly seeing material benefit from our strategic initiatives. The customer segmentation projects are progressing according to plan and we are pleased to announce a phase two procurement cost saving target of another 150 to 200 million Danish kroner.

Furthermore, we have launched a business process outsourcing project to improve internal processes and further reduce cost. This is currently being piloted in the Nordic region. Finally, we have completed five divestments of non-core activity.

Emerging markets is a major strategic priority.

Emerging markets continues to deliver high organic growth and now represents 24 per cent of group revenue. This part of the world is not only delivering above group average organic growth, but also continues to deliver above group average operating margin. Likewise, our ability to provide a full range of services to selected customers, also strategic priority and now IFS Integrated Facility Services represent 29 per cent of group revenue.

Significant recent IFS contract wins includes BASF, Swisscom and a European-based international bank and another US-based technology company. In addition, we have won several significant local banks, colleges, hotels.

Part of our success with Integrated Facility Services is our ability to deliver the IFS product on a global scale. And our global corporate clients now make up 9 per cent of all revenue. In Q2, we have won a new contract with a large international food producer and expanded to global partnership in Latin America with Citi. In Q1, we extended the global contract with HP until the end of 2018. However, our focus on profitable organic growth combined with softness especially in the European market has led to a slower decision making process by clients, which has led to some contracts being delayed and re-scoped.

Despite that, we continue to see an attractive pipeline of opportunities.

So all in all, the first six months, we have operated in a softer market than we originally expected but still have achieved an increase in our operating margin and have continued our strong cash conversion.

With this preamble, I would like to hand over to our CFO, Heine Dalsgaard, to cover the key financial highlights of Q2 in a little bit more detail.

HEINE DALSGAARD: Thank you, Jeff. So turning to slide 6, you will see our financial highlights of Q2. In relation to our three key financial priorities, which remain to be resilient organic growth, improved operating margin and strong cash conversion.

So on organic growth, organic growth reached 2 per cent in Q2 2014 and 2.4 per cent for the first half of 2014. Growth was driven by the Nordic region, Pacific region, as well as the emerging markets. A slow down of organic growth was expected in Q2 given, among others, tough comparables from Q2 in 2013 where we delivered a 4.4 per cent organic growth and at the same time we had no significant large contract start-ups in Q2 2014.

However, organic growth did end slightly lower than expected in Q2, mainly due to a continued challenging market economic environment in Europe, operational challenges in certain European countries, as well as timing and scope of new global corporate client contracts. We will get back to this in further details a little bit later on.

On operating margin, so whilst Q2 organic growth was difficult, we are satisfied with the continued improvement of the operating margin. The reported margin was in line with our expectations at 5.2 per cent in Q2 2014 compared with 5.1 per cent in Q2 2013. Adjusted, for the divestment of the margin accretive pest control activities in May in 2013, the operating margin improves 25 basis points from 4.9 per cent in Q2 2013 to 5.2 per cent in Q2 2014. This development was delivered especially by improved margins in Western Europe and in the Nordics, mainly due to the implementation of our strategic initiatives which we will cover in more detail in just a few minutes.

Cash conversion was in line with our expectations and ended at 98 per cent as a result of strong cash flow performance across the group. So ensuring a strong cash performance continues to be a key priority for us.

With this, I would like to turn back to Jeff to provide more detail on the regional performance.

JEFF GRAVENHORST: Thank you, Heine. Please turn to slide number 8.

Splitting the ISS world into two, it is clear that the organic growth has been driven by the emerging markets. Emerging markets now make up nearly one-quarter of ISS revenue and continue to deliver organic growth and margin above group averages.

Overall, continue to see attractive growth prospects in emerging markets despite a relatively macroeconomic slow down in certain of the economies.

We still have 76 per cent of our other business in developed markets and here we have had a flat growth in Q2.

This is mainly due to the slow-down in the Eurozone combined with our focus on profitable organic growth and margin improvements. This focus has, on the other hand, generated an improvement in the operating margin of 5.5 to 5.7 in Q2 2014 over '13. This is despite the divestment of the margin accretive pest control activities.

With the following, I would like to give you a little more detail by region, so please turn to slide 9.

Western Europe, the macroeconomic slowdown in the Eurozone, as I mentioned earlier, obviously impacted Western Europe. This is evidenced by a negative growth of 1 per cent. This includes the operational challenges in the Netherlands and Belgium, despite the offset by the good growth in Turkey and Austria among others. Especially in the Eurozone, we have focused on improving our operating margin and this focus, of course, has had some effect on our growth in this region.

But the positive flip slide of that focus is, of course, the significant improvement in the operating margin of 5.5 to 5.7 in Western Europe. This is, again, despite the impact of the divestment of the margin accretive pest control business so the improvement is actually higher.

The increase in the operating margin is clearly or mainly driven by our strategic initiative, which is procurement, customer segmentation and so forth, but also by the strong performance in Turkey and in the United Kingdom.

Major contract wins in this region. Renewals in Q2 include an IFS contract with Swisscom, a contract with the Department of Education in the United Kingdom, a significant contract increase providing services to Daimler. Furthermore, our UK renewed and expanded the IFS contract with Edinburgh College across several campuses.

Nordic. Turning to the Nordic region, improved organic growth was mainly driven by strong performance in our IFS division in Denmark and the energy and resource segment in Sweden. Increase in the operating margin was clearly supported by the strong initiatives,

strategic initiatives currently being implemented.
Further to this, the region was positively impacted by a strong operational performance in our Swedish operation.
Contract wins. An extension to the region included an extension of the facility management contract with Barsebäck Kraft AB, a nuclear power plant in Sweden, and renewals of large IFS contracts with the oil industry in Finland, as well as the food industry in Demark.
Turning to slide 10. In Asia, the organic growth reached 8 per cent in Q2. Albeit the growth is significantly above group average growth, it is negatively impacted by a relative slow down in certain Asian economies and therefore also in the wage inflation.
On the margin side, the operating margin ended at 7 per cent. That is a decline compared to the last year mainly as a result of the divestment, again, of the margin accretive pest control businesses in India 2014, but still well above group averages.
In Latin America, the organic growth accelerated further from Q1 and reached 12 per cent in Q2. This is the highest quarter growth since Q4 of 2011. Organic growth has mainly been driven by contract wins especially in Chile Argentina and Brazil, as well as improving trends on non-portfolio services
The improvement in the operating margin continued in

Q2 as a result of our focus over the last few years. The operating margin improved 0.6 percentage points to 4.7 per cent for Q2.

Turning to slide 11. In the Pacific region, organic growth reached 9 per cent, the highest quarterly organic growth since Q3 2010. This was mainly driven by significant win and extension, especially within the resource segment in Australia.

The operating margin declined to 4.1 and, again, that is a result of a significant -- of the divestment of a significant part of the business of Australia, being the pest control business that was divested in 2013. When we exclude that, the Pacific business had a significant improvement in the margin from the last year.

In North America, the organic growth was 2 per cent, mainly driven by the airport contract wins at the end of 2013. The operating margin improved from 1.4 per cent in Q2 '13 to 3.2 in '14. This is driven by stronger operational management control, termination of less profitable contracts, as well as continuous transformation towards more IFS contracts and therefore also larger contracts.

Eastern Europe, the organic growth was a negative 1 per cent in Q2 '14, compared to 5 per cent last year, so a high drop from last year. The development was mainly driven by contract termination and lower volume of contracts in Slovenia, Slovakia and Poland. This was partly offset by a very strong organic growth in Russia.

On that note, I would like to mention that our exposure to the Russian market is, of course, not related to import or export and it is less than 0.5 per cent of the group revenue.

Again, on the margin side, the operating margin increased from 6.9 to 7.3 so, again, a very strong development. This is mainly due to the termination of some of the low profit contracts and also cost saving initiatives in both Poland and Czech Republic as a result of our strategic initiatives.

With that, I would like to turn back to Heine for the details of the financial results.

HEINE DALSGAARD: Thank you, Jeff. So please turn to slide 13.

So starting from the top, total revenue declined by 8 per cent in Q2, 2014 ending at 18.4 billion krone against 20.1 billion krone for the same quarter last year. As previously mentioned, organic growth for the quarter, again, was slightly below our expectations at 2 per cent and the growth was mainly driven by Nordic, Pacific and emerging markets.

The successful divestment of non-core activities impacted growth of negative 7 per cent, due especially to the divestment of damage control in Nordics, landscaping activities in France and Norway, pest control activities in 12 countries and the divestment of the commercial security business in Pacific.

Finally, the negative impact from the exchange rate movement, was 3 per cent driven mainly by Turkish lire, Aussie dollar and Norwegian krone.

If you turn to slide 14, we will move further down the P&L to operating profit. So whilst Q2 organic growth was slightly below our expectations, we are satisfied to continue the underlying improvement of the operating margin. The operating profit declines 7 per cent to 956 million krone, negatively impacted by both divestments and currency effects. The operating margin was in line with expectations at 5.2 per cent in Q2 '14 compared with 5.1 per cent in Q2 '13. Adjusted for the divestment of the margin accretive pest control activities in May '13, the margin improved 25 basis points from 4.9 per cent in Q2 2013 to 5.2 per cent in Q2 2014.

The development was driven especially by improved margins in Western Europe and the Nordics among others due to the implementation of our strategic initiative.

However, please also note that in Q2 2013 the margin was negatively impacted by extraordinarily low margins especially in the US and certain countries in Western Europe. In both cases, there's a margin improvement significantly in the second half of 2013 and hence in these countries you should not expect the same year over year margin improvement in the second half of 2014.

As already mentioned, again, margins on a recorded basis improved in all regions apart from Asia and Pacific and remember that the margins in these two regions declined mainly due to the divestment of the margin accretive pest control activities.

So if you turn to slide 15, I will highlight a couple of things in addition to the items already covered. Other operating income and expenses amounted to a net expense of 29 million krone in Q2 2014. This was the result mainly of 67 million krone in restructurings coming from the implementation of the strategic initiatives which then again was offset by 37 million krone in gain on divestments relating mainly to the divestment related manly to the divestment of asylum centers in Norway in May this year.

For the first six months of this year, other operating income and expenses included 102 million krone, related to the IPO process. Financial income and expenses ended at 218 million krone, half a billion krone less than in Q2 2013. This positive development was mainly result of reduced interest expenses related to the repayment of senior secured facilities, as well as the Senior Subordinated Notes and the securitisation programme. For the first six months, the financial income and expenses was negatively impacted by 173 million krone in amortization of financing fees following the recent refinancing. Non-recurring interest expenses and amortisation of fees related to the Senior Subordinated Notes and the securitisation programme repaid in May, as well as FX and other non-recurring expenses amounted to 25 million krone. If we adjust these non-recurring items, the financial income and expenses for the quarter amount to 193 million krone. These 193 million krone cover 124 million in net interest expenses and 26 million krone in ongoing amortisation of financing fees and then 43 million krone in other financial expenses. These other financial expenses cover mainly recurring items related to interest on defined benefit obligations and local banking fees. We are providing these details on the net financial in case you need them for your financial forecast and predictions. Income taxes amounted to 223 million krone in Q2 2014, equivalent to an effective tax rate of

31 per cent compared with 60 per cent in Q2 2013. The reduced effective tax rate is the result of the new capital structure which as mentioned has led to significantly reduced interest expenses.

Profit before goodwill impairment increased from 166 million krone in Q2 2013 to 486 million krone in Q2 2014. This is equivalent to an adjusted EPS of 2.6 krone per share. Remember that this line in the P&L is the line which we are targeting to pay 50 per cent in dividend.

Please turn to slide 16. So cash flow. Cash flow from operating activities continued to be strong in Q2 but was impacted by lower operating profits due to divestment of non-core activities. In addition, in Q2 there was a negative from changes in pension payments related to the defined benefit pension schemes, as well as restructuring costs related to the implementation of the strategic initiative and then, on top of that, high income taxes related to tax payments on specific others completed in 2013.

Cash flow from investing activities in Q2 mainly covered CAPEX of 200 million krone, this is largely unchanged from Q2 2013. No material divestment proceeds were received in Q2 last year.

Finally, cash flow from financing in Q2 was impacted by the repayment of Senior Subordinates Notes and the securitisation programme in May of this year, leaving only 110 million euros of EMTNs due in December this year outstanding. Following this, we will have no significant short-term maturities.

So cash performance in Q2 was strong across the group ensuring a strong cash performance continues to be a key priority for us.

With this, I would like to conclude the financial section and hand over to Jeff for a strategy update.

JEFF GRAVENHORST: Thank you, Heine. Please turn to slide 18.

The aim of ISS is to provide service performance facilitating our customer's purpose through people empowerment. Put simply, we run facilities on behalf of our customers in a cost effective and convenient manner. We do this by providing all services needed to our own employees. That means that we are first of all a people business and as such we focus strongly on our leadership to drive and promote engagement. But for now, I really just want to focus this update on the four other activities or initiatives that we have put into play during 2013 or 2014, because this is where we had the largest impact on the bottom line.

So let me start with customer segmentation and organisational structure by turning to page 19. The purpose of this initiative is to get a more customer-orientated organisation with a more cost effective structure. Put simply, it is about reducing overheads by taking out layers of management and administration and at the same time achieve a more focussed organisation. This initiative was first proven by piloting in Demark and has since been rolled out in the Nordic region in the first half of 2014 and we have seen the results coming through in the margin, as you can see from the report.

We are now in the process of rolling this programme out to the rest of the world in the remainder of 2014 and beginning of 2015. We are very pleased with the results so far from this and we can see the results, as I said also, in the improved margin for the first half year of 2014 and the project is running accordingly.

Please turn to slide 20. The demand for Integrated Facility Services is clearly driven by the demand for more convenient and cost effective solutions for the customer. This tendency has become international as a result of increased centralised procurement functions with global companies. The demand for these services continues to increase but the softness in the European market has led to longer sales cycles. In the first half year we have seen fewer start-ups than expected, due to the late decision making, and of course also our focus on profitable organic growth. This type of services now delivers above group average growth and margin and now represent 29 per cent of our revenue.

Total IFS revenue grew 4 per cent in the first half of 2014, several local contracts were signed recently including the BASF, Swisscom and a major European-based international bank.

Part of the IFS success of business covers our global corporate client contracts. These now represent 9 per cent of our revenue, some of which are the largest and most complex in this industry. We are proud today to announce a new contract with a large international food producer covering a framework agreement with the potential to cover several countries in both Europe and Asia. Delivery of services in Switzerland commence on 1 August. On top of this, we have expanded the global client contract with one of our international banks, Citibank, to also cover significant operation in Latin America.

Earlier this year we announced a three year extension to the HP contract until the year 2018. While we have been awaiting new contracts the timing of the launch has been delayed and some scope reduced compared to previous expectations. We are currently in concrete negotiations with several international opportunities, continue to build an attractive pipeline going forward.

Turning to slide 21 on the excellence initiatives.

As a reminder, the external expenditure of our ISS total was 22 billion kroner in 2013. We are addressing this in a three phrase programme. The first phrase covers approximately 4 billion krone, this was completed in the first quarter of this year. Expected savings of 200 to 250 million krone to be realised during 2014 to 2016.

Phase two covering another approximately 4 billion was launched earlier this year and is targeting additional savings of 150 to 200 million krone to be realised from 2015. We are very pleased with the progress of this project and we have seen the expected benefit of this project coming through in the first half of 2014 and will continue during the year.

On top of this procurement project, business process, outsourcing project has been launched in the Nordic region, as I mentioned, and the project covers certain finance and accounting processes and the target is to improve finance processes as well as cost savings.

On a final note, please be aware that while these costs will obviously improve our margin, some will be invested into the business in order to maintain and strengthen our competitiveness.

So, I would like to turn to page 23. If you turn to page 22, slide 23, I would like to summarise what all of this, what we have just gone through, means for the outlook for 2014. With the success of our specific initiatives we are increasingly confident that the outlook for the year in relation to our operating margin and our cash generation. However, as a result of predominantly the slow down of the Eurozone we do see more uncertainty in the development of our organic growth in the remainder of year. Hence, we have updated our outlook.

Our organic growth expectation has been changed from 3 to 4 per cent to be around the level realised for the first six months in 2014. Our expectations for margin and our expectation for cash conversion remains unchanged. If you look at the total growth, we actually remain unchanged. This is because drops in the organic growths are offset by a positive impact and expectation to the currency development for the remainder of year obviously for the same reasons as Europe has macroeconomic issues. Overall, the revenue expects to be around the same.

Let me give a little bit more colour on the organic growth adjustment. It is impacted by a few factors which we have already alluded to but let me just reiterate. Firstly, our priority is to deliver profitable organic growth. We could have generated high growth, but we are not prepared to sacrifice our margins to do so. As a result, although we have the final table, there have been certain contracts where it has not been possible to agree or accept the terms and conditions. Other contracts have taken a longer time than normal to reach the agreement on terms and conditions, hence the timing and the scope has changed. The food processing contract just announced was expected to have been started earlier this year and now the roll out will take longer and roll into 2015.

Secondly, compared to our initial expectations for the year, we have seen further deterioration of the macro economic environment, especially in the Eurozone.

Thirdly, as a result, we have started less global corporate client businesses during the first half of 2014 than we originally expected. The number, as well as scope and timing, of these businesses means that we now expect a lower effect in 2014. Still, we remain very confident that we are in the mid-term of organic growth perspectives based on the general outsourcing trend that is facilities services. Our position as one of the world's leading facilities services provider, our IFS capabilities locally and globally and naturally the shift into faster growing emerging markets.

So, to reiterate on the growth, we are adjusting the organic growth, positive development on the currency compared to what was expected, negative 5 per cent impacted of course mainly by divestments.

On the operating margin, we are pleased with the development over the first six months this year which is in line with our expectations. This is of course among others so afforded by the implementation success of our strategic initiatives that we've just said, all of which are on track. Based on this, we are increasingly confident of reaching our outlook of the reported operating margin of 5.5 per cent realised in 2013.

Likewise, our cash conversion continues to be strong and we expect to end the year above 90%.

So to summarise, we are increasingly confident concerning the outlook for the year in relation to operating margin and cash conversion. However, as a result of the slow down of the Eurozone, we do see more uncertainty in the development of organic growth for the remainder of the year.

We continue to focus on the three key financial priorities: resilient organic growth, profitable improved operating margin and excellent cash conversion that will lead us

to a satisfactory net profit ensuring our ability to pay an attractive dividend to our shareholders.
Thank you very much and with this I would like to turn over to the Q&A session.
THE OPERATOR: Thank you. We will now begin the question and answer session. If you have a question, please press 01 on your phone. If you wish to be removed from the queue, please press 02. If you are using a speaker phone you may need to pick up the handset first before pressing a number. Once again, if you have a question please press 01 on your touch tone phone.
We have a first question from Mr James Chapman.
Please go ahead, sir.
(Pause)

We take the next question from Mr Allen Wells from Morgan Stanley. Please go ahead, sir.
QUESTION: Good morning, guys. A couple from me, please.
You talked obviously about your weaker conditions, macro conditions in Europe. I wondered if you could provide some details around some operating performance, any particular countries which may have seen some underperformance from an IFS perspective. That's the first question.
Secondly, you talked about obviously timing and scope of some of the issues around the startup of some of the GCC

contracts. Could we get a little bit more detail here, anything that you can find on any individual contracts and maybe if you can, sort of, confirm that this is just a phasing issue or the actual scope and size of these contracts has been phased down, if possible?

Then finally, third question just on the procurement savings. I am not sure if I missed your comments on this, you talked obviously earlier about an additional 100 to 150 -- 150 to 200 million in phase two. I didn't quite catch the timing of that. I think phase one was 2014 to 2016. What was the timing of phase two, please?

JEFF GRAVENHORST: Thank you very much. We start with the weakened position in Europe. I think when we look at this, there is no doubt that we have -- that the Eurozone is the zone that is hardest hit from a macro point of view. It is also coinciding with this is where we have already, as we mentioned before, operational challenges in Holland, Belgium and France. So where we expected to have some tailwinds in those regions we are actually having headwinds.

That of course mean a couple of things, one is that the clients are not spending as much extraordinary spend.

So on top of the portfolio, as we have expected and we have expected that pick-up to also follow through the second half of this year. We are now very cautious on that view, as I say, we don't actually expect as much as that going forward. But we haven't seen as much the problem in the first half, we are saying, compared to what we expected for the second half. We will see that decline a little bit because, one, it is the Eurozone and, two, it is also the countries where we are really focusing on driving up operating margin. You have seen this over the last couple of years, that this is our key focus in that region. But it is a little bit of an unfortunate mix.

This, of course, this macro economic position, particularly when you look at the crisis towards the east. So the impact from Russia, Russia has been a good driver for growth also in the Eurozone and that means that right now some of the big decisions we are sitting on are a little bit wobbly on what really is the length of this crisis, what is the impact of that, and that does make the decisions go slower. A little bit more analysis is going through, tougher terms and conditions negotiations than we have seen over the last few years when you are going through an upside.

That is the impact. Now, in the mid term I am actually -- we are good also in downturn situations, but right now in the middle of this you can just experience that some of the contracts we expected to start up

earlier this year, it took longer to get the final negotiations to start because of this delay of the crisis or the impact of the crisis and the uncertainty.
Phasing: Clearly the food processing contract we have just talked about was supposed to start earlier this year and we expected that roll out to be full and up and running by fourth quarter. That is not going to happen now and that is one of the reasons why we have to look at the full year adjustment delivered to you. Again, it hasn't had a major impact in the first half, but we can just see that less of that is going to come through this year.
But we are still winning global contracts and we still have a strong pipeline and we are still in concrete negotiations. So, again, on the mid term I am not concerned. But there is some phasing on that.
The scoping really relates to that instead of starting up many countries in one go, there is the tendency of starting up in a more, sort of, controlled manner. So one country, two countries, three countries at a time as opposed to, for those of you who remember back when we started up the big Barclays account, that was many countries in one go. So that is actually not bad for us, because it is also more controllable for us.
But it just means that on the ones we expected to start quicker this year and with a bigger scope this year will

roll over and also have an impact into next year.
The last question on procurement, you are right, we have gone through the second stage of the procurement project and that’s the next 4 billion of spend and we have identified saving targets of 150 to 200. Again, I just want to remind that the impact of these savings will come through as you change provider. We don't just change provider overnight. This will come in from 2015 over the '15, '16 and '17 as well. So it is an impact that will keep coming over the next two or three years starting from 2015.
QUESTION: All right, Jeff. Thanks a lot.
THE OPERATOR: The next question comes from Mr Daniel Patterson from SEB Please go ahead, sir.
QUESTION: Yes, good morning, gentlemen. A couple of questions. My first question relates to your new growth outlook. Just to be clear here, you expect to be guiding for the same organic growth in the second half as in the first half, right? That must be the mechanics. But my question is then how does that decompose? Is that macro dragging down and new contracts pulling up or vice versa? How should we think about that? How is the composition of the second half growth that you are guiding for?
JEFF GRAVENHORST: It is always difficult to decompose these things but clearly the result of the changed outlook,

what I just said. It is mainly impacted by the large contracts coming in later in the year and having less influence in the year. You can call it, that macro effect, I would turn around and say actually that has the growth effect because we are starting these contracts up. So first of August we started the first country with this food processing company and now we are in the planning phase of starting up for the next part which is also in Asia and in other countries Europe. The slow down from the macro economics will hit the once-only sales or the non-portfolio sales in the second quarter so it's a little bit difficult to say that it's probably the macro. That will give us a lower growth than expected. In this situation, there are still very good pipelines and very good final discussions, both locally and regionally and globally. So contracts are being won and started but we just expect it to be a little bit delayed from what we expected originally and then once only to really have lower growth as expected and then, as I said, the impact in the year from the global corporate clients and large accounts will be less in the year than expected.

QUESTION: Yeah.

JEFF GRAVENHORST: I don't know if that covers all of your points?

QUESTION: Yeah. I mean, the point is that you are saying that the global corporate clients is going to be less than expected, but as we didn't know what was expected then it's still hard for us to, sort of, get the head around whether that will actually be growing faster than the rest of the business and still be growth accretive, if you mean -- because that is more under your control, whereas macro will do whatever macro does.

JEFF GRAVENHORST: The start up of these contracts are in our control and that would be growth accretive in Europe, in the Eurozone. Europe is part of the market. Clearly the Asian market and the LatAm market continues to grow also in the second half.

QUESTION: Okay. I have another question regarding the procurement project. Could you give any granularity on phase one, the 200 to 250. How big an impact of that or how much of that do you expect this year?

JEFF GRAVENHORST: I think the way we have guided it, and it is difficult to differ between what is the impact on strength and competitiveness what is the impact on the margin side, but clearly we can see that our gross margins have picked up also for the first half year, which is of course also an implication of the efficiency improvements and procurement savings coming through so our guidance is to say there is an element of bringing us above the 5.5 per cent.

QUESTION: Okay. Okay. But there will still be some, let's say, run-off positive effects in '15 and '16? It's not mostly this year? Okay.

My final question regards North America -- my final question just on North America. You had a very strong margin in the quarter. Are you seeing a general uplift here in the market? Is this purely the internal measures that you are mentioning in the presentation and North America margin?

JEFF GRAVENHORST: I think the North American market is the result of hard work obviously internally and better managerial control as I said before we still have work to be done there. We are not completely done with the North American market, that's for sure. We have had a change of management also in the last -- during this year, actually. So we still see a good market in North America. We are a little bit behind, from our perspective, so we are investing time and effort into this market. So I will assume and we do expect further pick up as we go forward. I am a little bit cautious of just seeing it coming through the second half and that is not in our expectations either. So built in in our outlook we say a good development, stable development, but not a very significant uplift for the remainder of this year.

QUESTION: Okay. Thank you.

THE OPERATOR: The next question comes from

Mr Paul Checketts from Barclays Capital. Please go ahead, sir.

QUESTION: Morning. I have a couple of questions, please. The first one is on the growth environment and the GCC business. You mentioned that you have walked away from some work because of pricing. I presume that the contract went to someone else so would you say that the pricing competitive environment has intensified?

On the same broad topic, are you seeing any reduction in service levels on existing contracts?

JEFF GRAVENHORST: I actually don't mind being a little bit specific on this walking away from contracts. What we have seen is more future Ts and Cs. So it really is not the pricing part. I think we are very good at pricing and we are very effective and also competitive in that perspective. The Ts and Cs that we walked away from are guaranteeing inflation rates, adjustment, particularly in the emerging markets. We are very, very focused on -- it is very difficult to take on fixed price agreements for a five year contract in a country in Asia where we know that the rate inflation can be extreme. That is why we walk away and when we lose those contracts we lose them to competitors who are not self-supplying or self-delivering. Self-delivering companies knows that we need to, of course, adjust our salaries according to any laws and legislation. So that model that prevailed in those specific situations, I just cannot see them prevail or survive in the longer term. It is where they go up, sub-contractors, a lot of different sub-contractors ending up in an inefficient solution and in certain cases at least the risk of non-compliance. We have had two off this year of the larger deals and one international and another one regional. We will not run that gamble. So it's not the pricing, in this case it really is about the Ts and Cs. Is that worse than what we have seen before? Not really. But it was contracts were some of it we had expected to win and this was a, sort of, last minute things were we just couldn’t agree. The focus from us has to be on sustainable profitable growth is actually prevailing. In the long-term or in the mid term, I think most clients knows exactly this and they are the ones who are in it for the compliance and also for the real efficiency for the shop floors so its not a mid-term long term issue, it just had an impact on our growth this year. The second question was on reductions on scope. We have not seen – like back in 2007 and ’08, it is not really a result of customers reducing scope. It is more that we have expected to pick up Europe on the non-portfolio as well so when we see - when we did the original estimates you know, beginning of the year, we expect the second half in the EURO zone to be a little bit more buoyant and in a little bit better

mood. That means of course generally there will be more function, there will be more events, there will be more projects going on. This is where there is the hesitation to start projects and hesitation to increase incremental spend. It is not the reduction, per se and I don't really see -- there is always something going on with cost reduction, but it is not -- that is not the driver.
QUESTION: Thanks. The second point was on the cost savings. Can you give a bit more clarity on in phase two which - which costs buckets are being reduced.
JEFF GRAVENHORST: Yes. The second phase is areas like work wear it is optimisation of fleet utilisation, it is including food purchases and other, sort of, topics like those.
QUESTION: Thanks.
JEFF GRAVENHORST: Particularly these are three major -- and sub-contractors, sorry. As a company that used some temp services services across Europe, of course this is a part of it.
QUESTION: Thank you.
THE OPERATOR: The next question comes from Mr Michael Rasmussen from ABG. Please go ahead, sir.
QUESTION: Hello, gentlemen. A couple of questions, please. I would like to start off by talking a little bit about margins. Now, Jeff, you mentioned the IFS share was up 4 percentage points in the first half and

I do recall you obviously on a previous occasion have talked about IFS being a somewhat higher margin than group level. But when you talk about the 25 basis point margin increase, you mainly talk about the strategic initiatives in Western Europe. So is this because IFS is not really adding margin right now to start ups of large contracts or is this because you have some negatives pulling the margin down on an underlying basis?

My second question. Regarding, kind of, the service split, if you would give some indications on which of your service lines or service offerings are more hit than others in relation to what you see right now in the environment?

Finally, just a household question. If you could please give us a bit of a guidance on the full year tax rate. Thank you very much.

JEFF GRAVENHORST: Yes. To start with the margins point. Clearly the big uplift that you can see also in the regions, we had a good uplift in the Nordic region. This is where we see most of the strategic initiatives being piloted, it is also in Europe where we have seen the benefit of the procurement part. So if you look in Europe, it's procurement predominantly, it is also some structure savings but in the Nordic it is all of our initiatives coming through. On IFS, 4 per cent growth, obviously is impacted by not starting off any of the larger contracts. So, of course, that also means that we don't have that accretive impact from the IFS being above the group margins. Normally that you will see the higher growth in the IFS business still above group average but it's not as much as we expected.

So, again, to get into your question, the last question, can we make a service split where we can see where the impact is, again it comes through that we haven't started the larger contracts hence we have a 4 per cent organic growth or growth on the IFS. That comes back to the delay in the start ups compared to what we expect.

So margin wise it is not because of start ups or anything like that. It is predominantly driven by those initiatives. From a service split is there an impact as we see it. As I just said, yes, on IFS businesses which is the all inclusive product because of the delay of start ups and delayed decision making and focus on growth. That part is lower than we expected. The remainder of the services is pretty much the same. I mean, there is still a need for cleaning and security and catering and so forth, so we don’t see, as I said earlier, it's the reductions. It is more a hesitation to make the decision. There is no service as we see it which is differently hit than others.

It's more a regional split than it’s a service split.

HEINE DALSGAARD: So on the tax rate, effective tax rate, for the six months was 33 so that you can see from the report and it is clear that the impact from the non-deductible IPO costs will be reduced over the year. So what we are targeting for the year is an effective tax rate this year of between 32 and 33 per cent. If you then take the run rate basis and adjust the impact for the non-deductible IPO-cost and also the impact of rules concerning limitation of deductibility of financial expenses, then our run rate is around 30 per cent.

So for the year, 32 to 33 per cent and run rate going forward around 30.

QUESTION: All right. Thank you very much, guys.

THE OPERATOR: We have the next question from Mr Jesper Jensen from Nordea. Please go ahead, sir.

QUESTION: Thank you, good morning. Heine, I just had a question on the slide 15. I just wanted to make sure we got this right. To extrapolate what you laid out for us in that slide I end up with a P&L interest of 1.15 for the full year against the, I think consensus is around 1 billion. So maybe you could just clarify whether that's more or less the right number. Also, just going into 15, P&L and cash interest, where should we be? Thanks.

HEINE DALSGAARD: So if we take 2015 in terms of -- you talk about interest impact?

QUESTION: I am talking about the -- I just want to know if the consensus are currently at around a billion in interest costs in the year, in P&L. It seems like if we extrapolate what you have laid out for us we end up at 1.15bn. Is that correct?

HEINE DALSGAARD: That is approximately right and that is what we are trying to say. What we have -- what we are alluding to here is the fact that in addition to net interest there are also other elements in net financial and that includes banking fees and stuff like that. So the number that you are coming up with is approximately where we are.

QUESTION: Okay. And so looking at '15, P&L and cash?

HEINE DALSGAARD: No, we don't give specific guidance on 2015 right now. It is clear that the effect of the refinancing and, of course, the new capital structure for this year has been so far rather limited since the IPO was in March and repayment of the two expensive parts was in May. It is clear that for '15 you will see the full benefits coming through.

QUESTION: Yeah. I accept that. I think there is already half a million against a billion this year. I just wanted to clarify whether that is right, whether we are also too bold on that as we have all been about the year 2014.

HEINE DALSGAARD: We don't promise specifically on the number for '15, but what we can say is that for 2014 the number was on net interest expenses around 500 million. It is clear that the continuous reduction in debt for next year, that figure will go down. Then, on the other side, you have to take into account other net financial expenses.

QUESTION: Okay. Thanks.

THE OPERATOR: We have no further questions at this time. Thank you, ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.

(11.00 am)

(The conference call concluded)