

ANNUAL REPORT 2017

ISS GLOBAL A/S

Buddingevej 197
DK – 2860 Søborg
Denmark
CVR 21 40 83 95

Annual report
1 January – 31 December 2017

CONTENTS

OVERVIEW

- 4 Key figures and financial ratios
- 5 Definitions
- 6 Outlook

OUR PERFORMANCE

- 7 Group performance
- 12 Regional performance

OUR BUSINESS

- 16 Our business model and strategy
- 20 Our people
- 25 Our business risks

GOVERNANCE

- 28 Corporate governance
- 32 Internal controls relating to financial reporting

FINANCIAL STATEMENTS

- 34 Consolidated financial statements
- 88 Parent company financial statements
- 103 Management statement
- 104 Independent auditors' report

ISS Global A/S - an integral part of the ISS A/S Group

ISS Global A/S is an indirectly, wholly owned subsidiary of ISS A/S, an international provider of facility services, listed on Nasdaq Copenhagen. ISS Global A/S owns – directly or indirectly – the ISS Group's operating companies (together referred to as "ISS", "the Group" or "the ISS Global Group") and operates as the ISS Group's internal bank. ISS Global A/S therefore holds the ISS Group's external funding.

ISS Global A/S is an integral part of the ISS A/S Group. Thus, operating, financing and investing activities are managed for the ISS A/S Group as a whole, rather than specifically for the ISS Global Group.

The management team of the ISS Global Group formally consists of the Board of Directors and the Managing Director of ISS Global A/S. Since ISS Global A/S has no operating activities independently of the ISS A/S Group, the ISS Global Group relies on the management team of ISS A/S, which is considered the ISS Global Group's key management personnel.

Due to this structure, the sections "Our business" and "Governance" of the Management review, pp. 16-33, are described in the context of the ISS A/S Group.

KEY FIGURES AND FINANCIAL RATIOS

DKK million (unless otherwise stated)	2017	2016	2015	2014	2013
Income statement					
Revenue	79,951	78,699	79,631	74,157	78,506
Operating profit before other items	5,059	5,090	5,112	4,676	4,757
Operating margin ¹⁾	6.3%	6.5%	6.4%	6.3%	6.1%
EBITDA before other items ¹⁾	5,709	5,738	5,814	5,379	5,519
EBITDA	3,839	4,259	4,660	4,071	4,173
Operating profit (adjusted) ²⁾	3,189	3,611	3,958	3,368	3,411
Operating profit	2,930	3,058	3,432	2,504	2,276
Financial income	66	80	68	163	290
Financial expenses	(595)	(531)	(730)	(1,375)	(2,035)
Net profit (adjusted) ²⁾	1,770	2,256	2,367	1,416	918
Net profit from continuing operations ³⁾	1,740	1,832	1,915	620	(141)
Net profit/(loss) from discontinued operations ³⁾	(102)	(8)	-	-	-
Net profit	1,638	1,824	1,915	620	(141)
Cash flow					
Cash flow from operating activities	2,752	2,956	3,133	2,134	1,877
Acquisition of intangible assets and property, plant and equipment, net	(770)	(695)	(808)	(751)	(756)
Free cash flow	1,975	2,287	2,295	1,402	1,088
Cash conversion	102%	97%	99%	99%	100%
Financial position					
Total assets	45,906	43,441	44,170	41,932	45,907
Goodwill	18,196	17,537	17,969	18,328	18,813
Additions to property, plant and equipment	738	647	746	691	750
Equity (attributable to the owner of ISS Global A/S)	1,946	2,078	2,981	2,769	2,147
Equity ratio	4.2%	4.8%	6.7%	6.6%	4.7%
Net Debt	15,676	14,863	14,621	14,751	16,914
Employees					
Number of employees end of period	488,722	494,038	504,650	510,812	533,397
Full-time employees	76%	74%	74%	73%	74%
Growth					
Organic growth	2.4%	3.4%	4.4%	2.5%	4.3%
Acquisitions and divestments, net	1 %	(1)%	(1)%	(6)%	(2)%
Currency adjustments	(2)%	(3)%	4 %	(2)%	(3)%
Total revenue growth	2 %	(1)%	7 %	(6)%	(1)%

¹⁾ The Group uses Operating profit before other items for the calculations instead of Operating profit. Consequently, the Group excludes Other income and expenses, net, which includes items that do not form part of the Group's normal ordinary operations, such as gains and losses arising from divestments, the winding up of operations, disposals of property and restructurings and acquisition-related items. Furthermore, Goodwill impairment and Amortisation/impairment of brands and customer contracts are excluded from the calculation.

²⁾ Excluding Goodwill impairment and Amortisation/impairment of brands and customer contracts.

³⁾ As of 30 June 2017, Argentina and Uruguay are classified as discontinued operations. Comparative figures for 2016 have been restated accordingly.

DEFINITIONS

ISS uses various key figures, financial ratios (including alternative performance measures (APMs)) and non-financial ratios, all of which provide our stakeholders with useful and necessary information about the Group's financial position, performance and development in a consistent way. In relation to managing the business, achieving our strategic goals and ultimately creating value for our shareholders, these measures are considered essential.

FINANCIAL RATIOS

Acquisitions, %

$$= \frac{\text{Revenue from acquisitions}^{1)} \times 100}{\text{Revenue prior year}}$$

¹⁾ Based on management's expectations at the acquisition date.

Cash conversion, %

$$= \frac{(\text{Operating profit before other items last twelve months (LTM)} + \text{Changes in working capital LTM}) \times 100}{\text{Operating profit before other items (LTM)}}$$

Currency adjustments

$$= \text{Total revenue growth} - \text{Organic growth} - \text{Acquisition/divestment growth, net}^{2)}$$

²⁾ Includes the effect stemming from exclusion of currency effects from the calculation of organic growth and acquisition/divestment growth, net.

Divestments, %

$$= \frac{\text{Revenue from divestments}^{3)} \times 100}{\text{Revenue prior year}}$$

³⁾ Based on estimated or actual revenue where available at the divestment date.

EBITDA

$$= \text{Operating profit} + \text{Depreciation and amortisation} + \text{Goodwill impairment} + \text{Amortisation/impairment of brands and customer contracts}$$

EBITDA before other items

$$= \text{Operating profit before other items} + \text{Depreciation and amortisation}$$

Equity ratio, %

$$= \frac{\text{Equity attributable to the owner of ISS Global A/S} \times 100}{\text{Total assets}}$$

Free cash flow

$$= \text{Cash flow from operations} + \text{Cash flow from investments} - \text{Cash flow from acquisitions/divestments, net}$$

Net debt

$$= \text{Non-current and current loans and borrowings} - \text{Securities} - \text{Cash and cash equivalents} - \text{Positive fair value of derivatives}$$

Operating margin, %

$$= \frac{\text{Operating profit before other items} \times 100}{\text{Revenue}}$$

Organic growth, %

$$= \frac{(\text{Revenue current year} - \text{Comparable revenue}^{1)} \text{ prior year}) \times 100}{\text{Comparable revenue}^{1)} \text{ prior year}}$$

¹⁾ Implies the exclusion of changes in revenue attributable to acquisitions/divestments, net and the effect of changes in foreign exchange rates. In order to present comparable revenue and thereby organic growth excluding any effect from changes in foreign currency exchange rates, comparable revenue in the prior year is calculated at the current year's foreign currency exchange rates. Acquisitions are treated as having been integrated into ISS upon acquisition, and ISS's calculation of organic growth includes changes in revenue of these acquisitions compared with revenue expectations at the date of acquisition.

Total revenue growth, %

$$= \frac{(\text{Revenue current year} - \text{Revenue prior year}) \times 100}{\text{Revenue prior year}}$$

NON-FINANCIAL RATIOS

Customer Net Promoter Score (cNPS)

Measures the loyalty of our customers through a direct question of how likely the customer is to recommend ISS to others as a business partner

Employee Net Promoter Score (eNPS)

Measures the loyalty of our employees through a direct question of how likely the employee is to recommend ISS to others as a place to work

Lost Time Injury Frequency (LTIF)

Measures the number of incidents classified as lost time injuries per millions of hours worked

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements, including, but not limited to, the guidance and expectations in Outlook on p. 6. Statements herein, other than statements of historical fact, regarding future events or prospects, are forward-looking statements. The words may, will, should, expect, anticipate, believe, estimate, plan, predict, intend or variations of such words, and other statements on matters that are not historical fact or regarding future events or prospects, are forward-looking

statements. ISS has based these statements on its current views with respect to future events and financial performance. These views involve risks and uncertainties that could cause actual results to differ materially from those predicted in the forward-looking statements and from the past performance of ISS. Although ISS believes that the estimates and projections reflected in the forward-looking statements are reasonable, they may prove materially incorrect, and actual results may materially differ, e.g. as the result of risks related to the facility

service industry in general or ISS in particular including those described in this report and other information made available by ISS. As a result, you should not rely on these forward-looking statements. ISS undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.

OUTLOOK

OUTLOOK 2018

In 2018, we will continue to focus on the implementation of the ISS Way strategy, including the roll-out of our strategic GREAT initiatives. We will seek to intensify our focus on key accounts, ensuring the maximum benefit from volumes, concepts and talent materialises at our customers' sites. Through these efforts we expect to realise tangible operational and financial improvements over the medium term.

Over the past decade, our operating margin has proven resilient and has consistently been in the range of 6.0%-6.5%. We expect this to continue. A combination of negative currency translation effects and negative impact from acquisitions and divestments, together with operational challenges in North America and Sweden led to a slight margin decline in 2017. We continue to believe that our key account focus and broad efficiency initiatives will support medium-term operating margin improvement. In the short term, the loss of sizable, mature contracts will act as a headwind.

In summary, our medium-term focus is on delivering:

1. Higher organic growth
2. Robust operating margin
3. Strong cash conversion

For 2018 specifically:

Organic growth is expected to be 1.5%-3.5%. In most of our major countries, current macroeconomic conditions appear broadly supportive, with the exception of the UK where BREXIT-related uncertainty

OUTLOOK 2018

Organic growth	1.5%-3.5%
Operating margin	Around 6.3%
Cash conversion	> 90%

OUTLOOK 2017 – FOLLOW UP

	Annual report 2016	Q2 2017	Realised 2017
Organic growth	1.5%-3.5%	1.5%-2.5%	2.4%
Operating margin	> 6.46%	> 6.47%	6.3%
Cash conversion	> 90%	> 90%	102%

persists. As such, we expect continued strong growth from key accounts, driven by both expansion of existing customer relationships and new customer wins. The negative effect from lost revenue with DXC Technology, HP Inc. and the EMEA operations of an international bank will impact most of the year and will partially offset progress elsewhere. We see continued healthy growth coming from our emerging market countries.

Operating margin is expected to be around 6.3%, excluding any impact from acquisitions and divestments as well as currency translation effects. We expect the loss of mature and sizable contracts to have a dilutive impact which will be partially mitigated by our ongoing focus on cost and efficiency initiatives.

Cash conversion will continue to be a priority in 2018, as it has been historically, and we expect cash conversion to remain above 90%.

The outlook should be read in conjunction with "Forward-looking statements" on p. 5 and our exposure to risk, see Our business risks on pp. 25–27.

FOLLOW UP ON OUTLOOK FOR 2017

For our three key financial objectives, organic growth, operating margin and cash conversion, ISS ended 2017 in line with the outlook announced in the interim report for Q2 2017, with the exception of the operating margin which ended in line with the level realised in 2016, excluding the impact from acquisitions and divestments as well as currency translation effects.

GROUP PERFORMANCE

Our key account focus and strategic choices ensured a resilient performance for 2017.

OPERATING RESULTS

Group revenue for 2017 was DKK 80.0 billion, an increase of 2% compared with 2016. Organic growth was 2.4%, growth from acquisitions and divestments, net increased revenue by 1%, while the impact from currency effects reduced revenue by 2%.

Organic growth was supported by positive organic growth in all regions. The organic growth was mainly driven by growth in our portfolio services, start-up and expansion of Global Corporate Clients contracts in Continental Europe and Americas, large contract start-ups in Northern Europe and increased demand for non-portfolio services in North America. This was partly offset by expected organic revenue reductions in Australia, planned contract exits within certain business segments in Brazil, China and Eastern Europe following adjustments of our business platform, scope reduction following the spinoff of activities of one of our Global Corporate Clients contracts as well as contract losses and downscaling in the Industry & Manufacturing segment in Sweden. We started seeing positive growth in Australia at the end of the year with the annualisation of the contract losses experienced in 2016 and supported by new sales and strong retention in the year.

Operating profit before other items amounted to DKK 5,059 million in 2017 for an operating

REGIONAL PERFORMANCE

REVENUE DKK million	2017	2016	Organic growth	Acq./ div.	Currency adj.	Growth 2017
Continental Europe	30,944	30,095	4 %	1 %	(2)%	3 %
Northern Europe	25,049	26,515	1 %	(3)%	(4)%	(6)%
Asia & Pacific	14,596	14,606	1 %	-	(1)%	(0)%
Americas	9,313	7,407	4 %	22 %	-	26 %
Other countries	97	104	(4)%	-	(3)%	(7)%
Corporate / eliminations	(48)	(28)	-	-	-	(71)%
Group	79,951	78,699	2.4 %	1.2 %	(2.0)%	1.6 %
Emerging markets	19,928	19,626	4 %	0 %	(2)%	2 %

OPERATING PROFIT AND MARGIN DKK million	2017	2016	Growth 2017
Continental Europe	2,006	1,823	10 %
Northern Europe	1,789	1,982	(10)%
Asia & Pacific	1,043	1,098	(5)%
Americas	334	305	10 %
Other countries	0	(1)	100 %
Corporate / eliminations	(113)	(117)	3 %
Group	5,059	5,090	(1)%
Emerging markets	1,348	1,288	5 %

margin of 6.3% (2016: 6.5%). The margin was adversely impacted by acquisitions and divestments as well as negative net currency translation effects of 0.1 percentage point. Furthermore, the margin was negatively impacted by Northern Europe and the Americas mainly due to operational challenges, contract losses in Sweden, IFS contract start-up costs in North America and the impact of scope reductions of mature contracts. Finally, we saw margin decreases in Asia & Pacific driven by Australia, China, Indonesia and Thailand. This was partly offset by margin increases in Continental Europe, supported by Switzerland, Spain, France, Germany and Austria mainly due to operational efficiencies and a

positive impact from a reduced pension obligation.

We define emerging markets as comprising Asia, Eastern Europe, Latin America, Israel, South Africa and Turkey. Combined, these markets represent 25% of Group revenue and they delivered 4% organic growth. In addition to significantly contributing to the Group's organic growth, emerging markets delivered an operating margin of 6.8% in 2017 (2016: 6.6%). Emerging markets remain an important part of our strategic platform and we aim to continue to grow our footprint in these markets in a balanced and controlled manner.

Other income and expenses, net was an expense of DKK 606 million (2016: net expense of DKK 213 million), mainly due to a loss on divestments of DKK 359 million, which primarily related to the remeasurement of the landscaping activities in the UK, which are classified as held for sale. Furthermore, restructuring projects amounted to DKK 284 million (2016: DKK 131 million), predominantly related to the continued implementation of GREAT across the Group, restructuring in Sweden due to operational challenges as well as adjustments to the business platform in Brazil. This was partly offset by divestment gains of DKK 97 million relating primarily to the divestment of the Group's activities in Iceland, the real estate administration activities in Sweden and the archiving activities in Finland.

Goodwill impairment amounted to DKK 34 million (2016: DKK 194 million) and mainly related to the public hospital cleaning activities in Hungary and the Danish sewage and industrial service business.

Operating profit was DKK 2,930 million (2016: DKK 3,058 million). The reduction was a result of the increase in other expenses relating to loss on divestments and increased restructurings. This was partly offset by lower amortisation and impairment of acquisition-related intangibles.

Financial income and expenses, net was an expense of DKK 529 million (2016: DKK 451 million). The increase compared to last year was mainly related to higher interest expenses, net due to higher average net debt as a result of the acquisition of Guckenheim and the slightly higher cost of debt due to bonds issued under the EMTN programme in August. Furthermore, amortisation of financing fees increased as unamortised non-cash financing fees were expensed in connection with the repayment of Term Loan B (EUR 300 million) and the refinancing of the revolving credit facility for a total amount of DKK 27 million.

The effective tax rate for 2017 was 30.2% (2016: 28.6%) calculated as Income taxes (adjusted) of DKK 804 million divided by Profit before tax (adjusted) of DKK 2,660 million. The effective tax rate was negatively impacted by approximately 2.9 percentage points due to a revaluation of the deferred tax asset in the USA following the US tax reform. This was partly offset by non-taxable gains on divestments, which reduced the effective tax rate by approximately 0.8% and additional recognised deferred tax assets in Germany of approximately 1.0%. Adjusted for these factors, the effective tax rate was approximately 28%.

The Group's activities in Argentina and Uruguay, which are operated as a regional cluster, have been classified as **discontinued operations** and presented separately in the income statement as sales processes were initiated in June 2017. Net loss from discontinued operations was DKK 102 million in 2017 (2016: a loss of DKK 8 million). Comparative figures have been restated accordingly as described in note 4.5 to the consolidated financial statements.

Net profit (adjusted) was DKK 1,770 million (2016: DKK 2,248 million). The reduction of DKK 478 million was driven by one-off non-cash items of DKK 413 million comprising loss on divestments related to the remeasurement of the landscaping activities in the UK, which are classified as held for sale and a revaluation of the deferred tax asset in the USA following the US tax reform. In addition, net profit was adversely impacted by currency headwinds.

Net profit was DKK 1,638 million (2016: DKK 1,824 million). The decrease was mainly due to the above-mentioned items, though offset in part by lower goodwill impairment and a positive impact of the US tax reform from the revaluation of deferred tax liabilities relating to acquisition-related intangibles. The net impact of the US tax reform on Net profit was therefore reduced to DKK 8 million (expense).

BUSINESS DEVELOPMENT

Delivering service solutions to our **key account** customers, especially Integrated Facility Services (IFS), is a key part of our strategy. Our key account customers comprise all our Global Corporate Clients as well as regional and country key accounts. In total, these key accounts represent 52% of our total revenue and represent large IFS contracts or contracts with IFS potential. In the future, we expect to extend key account services to some large strategical single service contracts.

The **IFS** share of Group revenue has grown steadily in recent years, amounting to 38% in 2017 (2016: 37%). The increase was supported by the successful implementation of our strategic initiatives, once again illustrated by a number of contract wins, expansions and extensions in 2017, see the contract overview on p. 9.

Revenue generated from IFS in 2017 was up 6% (2016: 14%) in local currencies to DKK 30.5 billion. In 2017, we added significant new key accounts including the new Global Corporate Clients contracts and large local IFS customers, such as Shire, ABB and large local customers in the Healthcare segment. In addition, we won the single largest IFS contract in ISS history with Deutsche Telekom, which

underpins our focus on the key account segment. Starting July 2019, more than 6,000 ISS employees will deliver IFS to Deutsche Telekom at approximately 9,000 sites across Germany. Once fully operational, the contract will amount to approximately 4% of 2017 Group revenue.

Revenue generated from **Global Corporate Clients** increased by 10% in 2017 (2016: 19%) in local currencies to DKK 9.7 billion and now accounts for 12% of Group revenue (2016: 11%). Growth was supported by the start-up of new contracts, Shire in particular, expansion with existing clients as well as stronger demand for non-portfolio services, partly offset by a revenue reduction from the loss of the DXC Technology contract. We added three new Global Corporate Clients contracts in 2017 and announced an additional two at the beginning of 2018. In addition, we successfully extended our partnership with both Barclays and Hewlett Packard Enterprise.

CONTRACT MATURITY

Our revenue base consists of yearly contracts which are renewed tacitly and thousands of multi-year con-

tracts, the majority of which have an initial term of 3-5 years. A significant share of our revenue is therefore up for renewal every year. To mitigate this inherent business risk, we have a strong focus on customer satisfaction and as part of our contract management processes we continuously and proactively work with our customers to seek contract renewals or expansions well in advance of expiry. As a result, our retention rate of customer contracts is approximately 90% and even higher for key accounts.

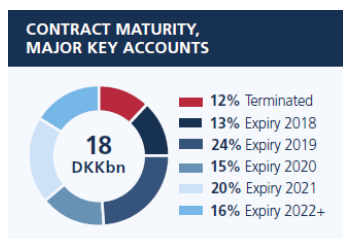
In terms of revenue up for renewal in any given year, the majority relates to a very large number of small contracts. However, an analysis of our large key account customers (see chart below) helps illustrate those contracts which, individually, may have a visible impact on the Group's revenue development. This analysis is based on all global and regional key account customers and those local key account customers generating annual revenue in 2017 in excess of DKK 200 million. In 2017, 41 ISS customer contracts fell into these categories. Between them, they generated revenue of approximately DKK 18.0 billion, or 23% of Group revenue.

MAJOR KEY ACCOUNT DEVELOPMENTS	COUNTRIES	TERM	EFFECTIVE DATE
WINS			
Shire ¹⁾	23 countries in Americas and Continental Europe	5 years	Q2 2017
South London and Maudsley NHS Foundation Trust	UK	5 years	Q2 2017
Banking segment company	UK	3 years	Q2 2017
Retail and wholesale segment contract ¹⁾	4 countries in Americas and Continental Europe	5 years	Q2 2017
Sengkang Hospitals	Singapore	3 years	Q3 2017
Adana Integrated Health Campus	Turkey	5 Years	Q3 2017
Professional service company	UK	5 years	Q3 2017
ABB	4 countries in Asia & Pacific (mainly China and India)	5 years	Q4 2017
LEGO Group ¹⁾	10 countries	5 years	Q1 2018
MTR Corporation	Hong Kong	3+3 years	Q1 2018
International food and beverage company ¹⁾	20 countries across Europe	5 years	Q1 2018
Department for Business, Energy and Industrial Strategy (BEIS)	UK	4 years	Q1 2018
Deutsche Telekom	Germany	10 years	Q3 2019
EXTENSIONS/EXPANSIONS			
Huawei ¹⁾	14 European countries	3 years	Q1 2017
SEB	Sweden	3 years	Q2 2017
Oslo Gardermoen	Norway	6 years	Q3 2017
Barclays ¹⁾	26 countries	5 years	Q4 2017
National Westminster Bank	UK	3 years	Q4 2017
Hewlett Packard Enterprise ¹⁾	44 countries	3 years	Q4 2017
Melbourne and Launceston Airports	Australia	4 Years	Q4 2017
Fullham Road Collaborative	UK	5 Years	Q1 2018
Danish Defence	Denmark	6 years	Q2 2018
REDUCTIONS/LOSSES			
DXC Technology ¹⁾²⁾	36 countries	-	Q3 2017
HP Inc. ¹⁾	45 countries	-	Q1 2018
UK Ministry of Defence	UK	-	Q1 2018
Tubelines	UK	-	Q1 2018
International Bank ¹⁾	34 countries in EMEA	-	Q2 2018

¹⁾ GCC.

²⁾ Spin-off and merger of Hewlett-Packard's enterprise services business with CSC.

As illustrated in the chart below, annual revenue of approximately DKK 2.1 billion (2.7% of Group revenue) from five customers have been lost and will disappear for part, or all of 2018. Eight customer contracts representing annual revenue of DKK 2.3 billion (2.8% of Group revenue) are up for renewal in 2018. The chart illustrates this development together with the value (based on realised revenue in 2017) of these large contracts, which are all up for renewal in subsequent years.



It is important to note, that the analysis only shows the maturity of existing contracts and does not show any impact from new customer contracts which have been signed but are yet to commence, such as Deutsche Telekom and other significant wins illustrated in the table on the previous page.

CASH FLOWS AND WORKING CAPITAL

Cash conversion for 2017 was 102% (2016: 97%), driven by a strong general cash performance across the Group. Ensuring strong cash performance remains a key priority, and the result reflects our consistent efforts to ensure timely payment for work performed, focus on strong working capital processes as well as timing of collections and payments around year-end.

Cash flow from operating activities amounted to DKK 2,752 million (2016: DKK 2,956 million). The decrease in cash inflow was mainly due to an increase in other expenses paid of DKK 211 million reflecting significant restructuring projects across the Group and a larger cash outflow from interest paid, net of DKK 71 million. This was partly offset by an improved cash flow from changes in working capital of DKK 211 million mainly due to a continued focus on strong working capital processes as well as the timing of collections and payments around year-end.

Other expenses paid of DKK 392 million (2016: DKK 181 million) mainly included restructuring projects initiated and expensed in 2016 and 2017.

Cash flow from investing activities was a net outflow of DKK 2,198 million (2016: DKK 637 million). Cash outflow from investments in intangible assets and property, plant and equipment, net, of DKK 770 million (2016: DKK 695 million) represented 1.0% of

Group revenue (2016: 0.9%). Cash outflow from acquisition and divestment of businesses, net of DKK 1,421 million, mainly related to the acquisition of Guckenheimer in the USA partly offset by divestments, most significantly the Group's activities in Iceland, the real estate administration activities in Sweden and the sewage and industrial service activities in Denmark.

Cash flow from financing activities was a net inflow of DKK 1,635 million (2016: outflow of DKK 2,470 million). This was primarily due to proceeds from bonds of DKK 4,439 million from the issuance of the 10-year EUR bond (EUR 600 million), partly offset by the repayment of senior facilities of DKK 2,230 million (EUR 300 million Term Loan B). Furthermore, cash outflow from dividends paid to the shareholder ISS World Services A/S was DKK 1,200 million.

Free cash flow was an inflow of DKK 1,975 million (2016: 2,287 million). The decrease was mainly due to higher restructuring charges as explained above and increased investments in intangible assets and property, plant and equipment, net, including investments in technology.

STRATEGIC ACQUISITIONS AND DIVESTMENTS

ACQUISITIONS

In January 2017, we acquired Evantec, a technical and building services company in Germany with annual revenue of approximately DKK 352 million and about 800 employees. The acquisition is in line with our strategic priorities of further expanding our competences within the technical and building services.

In February 2017, we acquired SIGNAL, a Danish-based workplace management consulting firm with annual revenue of approximately DKK 30 million and 30 employees based in offices in Copenhagen and Oslo. The acquisition of SIGNAL will add greater insights into how workplace design and service can come together to drive employee engagement.

In April 2017, we acquired Guckenheimer, a leading US catering company with annual revenue of approximately DKK 2,300 million and 3,200 employees in 33 US states. The acquisition supports our strategic aim of strengthening our catering capabilities in North America and building a stronger platform delivering IFS to key accounts.

Going forward, we will continue to consider acquisition opportunities with the potential to enhance our core competencies subject to tight strategic and financial filters.

DIVESTMENTS AND ASSETS HELD FOR SALE

In 2017, we divested the sewage and industrial service activities in Denmark, the Group's activities in Iceland, the route-based cleaning activities in the Netherlands, the engineering consulting activities in Finland as well as minor activities in Ireland, Spain, Sweden and Finland.

In December, we also announced the divestment of our activities in Greece, which was completed in January 2018. Also in January 2018, we completed the divestments of our industrial kitchen cleaning activities in Belgium and our public hospital cleaning activities in Hungary.

All divestments support our strategy of focusing on geographies and services where we see the greatest opportunities for customer growth and profitability. We will continue to review our existing business for potential divestments of non-core activities.

At 31 December 2017, four businesses in Continental Europe, Northern Europe and the Americas, including Argentina and Uruguay, which are also presented as discontinued operations, were classified as held for sale. Assets and liabilities held for sale amounted to DKK 1,316 million (2016: DKK 1,625 million) and DKK 428 million (2016: DKK 426 million), respectively.

In 2017, divestments and revaluation of businesses classified as held for sale resulted in a net loss before tax of DKK 313 million (2016: net loss of DKK 178 million), which comprised impairment losses on goodwill and customer contracts of DKK 34 million and DKK 3 million respectively, a net loss of DKK 262 million recognised in Other income and expenses, net as well as an impairment loss on goodwill of DKK 14 million presented as discontinued operations.

INTANGIBLE ASSETS, GOODWILL AND GOODWILL IMPAIRMENT

Intangible assets at 31 December 2017 amounted to DKK 19,492 million and mainly comprised goodwill.

At 31 December 2017, goodwill was DKK 18,196 million compared with DKK 17,537 million at 31 December 2016. The goodwill balance at 31 December 2017 reflected additions from acquisitions, mainly Guckenheim, of DKK 1,473 million partly offset by negative foreign exchange adjustments of DKK 675 million and impairment losses of DKK 48 million.

CAPITAL STRUCTURE

The ISS Global Group is indirectly wholly owned by ISS A/S and is therefore part of the ISS A/S Group.

Group Treasury manages financing activities and capital structure centrally for the ISS A/S Group as a whole. The ISS Global Group's financing activities and capital structure are not assessed independently of the ISS A/S Group.

In 2017, ISS Global A/S successfully issued a 10-year EUR bond for a principal amount of EUR 600 million maturing on 31 August 2027 with a coupon of 1.500%. The notes were issued under the company's EUR 3 billion European Medium Term Note (EMTN) programme, which is listed on the Luxembourg Stock Exchange. The net proceeds of the offering were used to repay the EUR 300 million Term Loan B and for general corporate purposes.

We also entered into a new senior unsecured revolving credit facility of EUR 1,000 million with a group of 15 banks. The new revolving credit facility matures in November 2022 and replaces the EUR 850 million revolving credit facility maturing in February 2019. The new revolving credit facility is not subject to financial covenants and the drawn margin is determined semi-annually based on a leverage grid.

ISS A/S currently holds corporate credit ratings of BBB / Stable outlook assigned by S&P and Baa2 / Stable outlook assigned by Moody's, respectively.

EQUITY

At 31 December, equity was DKK 1,956 million, equivalent to an equity ratio of 4.2% (2016: 4.8%). The decrease of DKK 132 million was mainly a result of dividends paid to the shareholder of DKK 1,200 million and negative currency adjustments of DKK 659 million relating to investment in foreign subsidiaries. This was partly offset by net profit of DKK 1,638 million. The negative currency adjustments were mainly due to HKD, GBP, and USD depreciating against DKK.

SUBSEQUENT EVENTS

Acquisitions and divestments completed in the period 1 January to 28 February 2018 are described under strategic acquisitions and divestments, pp. 10–11.

In addition, on 23 February 2018, we signed an agreement to divest the landscaping activities in the UK with an annual revenue of approximately DKK 426 million (unaudited) and 1,233 employees.

Other than as set out above or elsewhere in this Group Annual Report, we are not aware of events subsequent to 31 December 2017, which are expected to have a material impact on the Group's financial position.

REGIONAL PERFORMANCE

CONTINENTAL EUROPE

THE MARKET AND OUR FOCUS

Most markets of this region are developed markets, but with differences in terms of IFS market maturity and macroeconomic environment. There are also developing outsourcing markets in the eastern part of the region. We hold leading market positions in several countries, including in Spain, Switzerland, France and Turkey. Key customer segments are Business Services & IT, Industry & Manufacturing, Public Administration, Healthcare and Pharmaceuticals.

The year 2017 was characterised by significant contract wins with new Global Corporate Clients and the addition of several new key accounts on country level. We also successfully retained several important key accounts in the region. The most significant win was Deutsche Telekom, the single largest IFS contract in ISS history, which underlines the focus on the key account segment. We continued the work to develop our core business, divesting non-core activities in several countries, including our activities in Greece, and the integration of Evantec in Germany which supports our technical and building services capabilities.

In 2018, we will remain focused on delivering IFS solutions for existing contracts as well as delivering IFS to a number of new customers, including Deutsche Telekom. We plan to dedicate significant resources in 2018 toward the transition and mobilisation of this contract which commences in July 2019. Furthermore, we will continue building and improving our platform from which we can deliver high quality IFS solutions to our key accounts, with France being the key focus in 2018. Finally, in the eastern part of the region, we will continue to gradually reduce the proportion of our customers in the public sector and focus on developing our business with multinational customers instead.

STRATEGY UPDATE

The implementation of GREAT continued in 2017 and we are extracting the benefits of skill and scale in terms of volume, concepts and talent. We are

working across countries to share and leverage excellence from concepts within commercial, IT and back office optimisation. We identify best practices and have service excellence experts working across borders to support local organisations. As part of our cost leadership initiatives and to drive volume benefits, we focus on spend visibility and procurement compliance across the region. We invest in developing our talent, including our account managers, training them in all aspects of the business, including through our Key Account Manager Certification (KAMC) programme. In France, we have launched a significant GREAT implementation to strengthen the operating model, improve the IFS platform, increase the commercial focus and generate efficiencies, which will be a key focus area for us in 2018.

FINANCIALS

Revenue increased to DKK 30,944 million in 2017 (2016: DKK 30,095 million). **Organic growth** was 4%, while the impact from divestments and acquisitions, net increased revenue by 1% and currency effects reduced revenue by 2%, mainly due to the depreciation of TRY and CHF against DKK. The main contributors to the strong organic growth rate were Turkey, Germany, Switzerland and Austria with the main drivers being contract launches and price increases in Turkey, projects and contract launches in Germany and the expansion of Novartis and the start-up of Shire in Switzerland and Austria.

Operating profit before other items was up by 10% to DKK 2,006 million, resulting in an improved operating margin of 6.5% (2016: 6.1%). The improved margin was mainly supported by increases in France and Spain combined with strong performances in Switzerland, Turkey and Austria following the good growth and the focus on operational efficiencies. Furthermore, the margin was supported by a reduced pension obligation secured on the back of lower interest rates.

NORTHERN EUROPE

THE MARKET AND OUR FOCUS

The markets of this region are mature, developed, very competitive and with high outsourcing rates. ISS holds a market-leading position in the Nordic countries and is recognised as a leader in the UK & Ireland. Key customer segments are Business Services & IT, Public Administration, Industry & Manufacturing and country-specific segments such as Healthcare and Transportation & Infrastructure.

In 2017, several significant Nordic IFS contracts were won, increased and retained, including the renewal and expansion of the partnership with a leading mobile operator across Scandinavia, and also the significant expansion of the contract with the Danish Defence making this the largest outsourcing contract in Denmark ever. In the UK, we significantly expanded our contract with National Westminster Bank and extended our contract with the Fullham Road Collaborative.

In 2018, we will remain focused on our key customer segments, building the sales pipeline in these segments and aiming to further harvest from and develop our capabilities within the technical services and capital projects areas. However, we will see some revenue reduction in the region in 2018, particularly in the UK and Ireland, mainly as a consequence of losses or reductions of certain Global Corporate Clients contracts and large local contracts, namely HP Inc. and an international bank and also a significant local contract with the UK Ministry of Defence.

STRATEGY UPDATE

Our strategic focus remains to leverage our strong market position in order to harvest benefits in terms of volume, concepts and talent, mainly through sharing best practices and developing solutions and concepts tailored to our key customer segments. Benchmarking and high productivity through Operational Excellence and integration of services will remain priorities to ensure that we deliver great service based on our customers' needs – in the most efficient way. In addition, back office process excellence supported by the right IT strategy will continue to enhance transparency, thereby enabling us to focus on cost leadership. We will continue to benefit from both Group and Regional scale in driving procurement efficiency and volume benefits. Finally, we aim to further upskill and develop our talent at all levels in support of our strategic focus.

We will continue to focus our efforts to improve the performance in Sweden following contract losses, the downscaling of the Industry and Manufacturing segment and the operational challenges within parts of the cleaning segment in 2017.

FINANCIALS

Revenue amounted to DKK 25,049 million (2016: DKK 26,515 million). **Organic growth** was 1% with currency effects reducing revenue by 4%, mainly due to the depreciation of GBP against DKK, and divestments reducing revenue by 3%. Organic growth was driven by 2016 and 2017 contract launches in the UK, Denmark and Norway as well as good demand for non-portfolio services, which was partly offset by reduced revenue in projects in the UK. Detracting from performance were contract losses and downscaling in the Industry & Manufacturing segment in Sweden. Excluding Sweden, organic growth was 2%.

Operating profit before other items amounted to DKK 1,789 million (2016: DKK 1,982 million), for an operating margin of 7.1% (2016: 7.5%). We saw improved margins in the UK and Finland which were mainly driven by operational efficiencies. This was more than offset by margin decreases in Sweden due to contract losses, operational challenges within parts of the Cleaning segment and one-off costs as well as reduced margins in Norway and Denmark mainly due to the start-up of new contracts and also to one-off income in Norway in 2016.

ASIA & PACIFIC

THE MARKET AND OUR FOCUS

The region consists of large and established markets, such as Australia, Hong Kong and Singapore, as well as developing outsourcing markets, such as China, India, Indonesia and Thailand. ISS has a strong presence in the region and holds a market-leading position in most countries. Key customer segments are Business Services & IT, Industry & Manufacturing, Healthcare, Retail & Wholesale, Energy & Resources and Transportation & Infrastructure.

In 2017, we further strengthened our IFS offering in selected customer segments, leading to important contract wins and extensions. Organic growth was

firstly impacted by the contract losses and reductions in 2016 in the remote site resources segment in Australia, which were the result of industry downsizing. Secondly, organic growth was affected by losses in China as we transform our business and customer base towards large multinational customers. Our key account strategy has started yielding positive results with high customer retention during 2017 and some large contract wins late in the year, including ABB, which will be mobilised over 2018. Australia has successfully renewed its portfolio of contracts and is geared to return to organic growth in 2018.

Going forward, we will continue developing our value proposition for selected customer segments, accelerating the strategy implementation through GREAT, driving in-country and contract leadership development, and further strengthening commercial and operational capabilities to drive future growth. Moreover, driving the change towards performance-based commercial models will remain in focus as markets mature and change from input-based to outcome-based contracts, as seen through our strategic shift in China.

STRATEGY UPDATE

We continued the work to implement GREAT in 2017, focusing on harvesting the benefits of skill and scale in terms of volume, concepts and talent. We are aligning organisational structures, leveraging best practice concepts and approaches, and driving procurement excellence. We also focused on cost leadership and achieved scale benefits through our focus on procurement excellence across countries. Sharing skills and best practices is done by utilising virtual teams of subject matter experts. Sharing talent across the region and developing leadership and key account management skills through training programmes will remain in focus.

FINANCIALS

Revenue was DKK 14,596 million (2016: 14,606 million) driven by 1% **organic growth** which was offset by a 1% negative impact from currency effects. We saw high single-digit growth rates in Singapore driven by growth in the Healthcare Segment and Indonesia due to minimum wage increases and growth in key accounts as well as double-digit organic growth rates in India and the Philippines driven by contract launches and expansions with Global Corporate Clients. This was partly offset by expected revenue reductions in China and Australia. Australia saw an organic revenue reduction for the first three quarters of the year but returned to positive organic growth in Q4 following the annualisation of contract losses and new wins in 2017.

Operating profit before other items decreased by 5% to DKK 1,043 million reflecting an operating margin of 7.1% (2016: 7.5%). The margin decrease was mainly due to lower margins in Indonesia, following a one-off income in Q4 2016 related to pensions, China, due to planned contract exits and one-off costs, and Thailand, due to one-off costs and higher labour costs. This was partly offset by strong performances in Singapore and Hong Kong supported by operational efficiencies and cost savings, as well as a strong performance on certain contracts in India.

AMERICAS

THE MARKET AND OUR FOCUS

Americas consists of two moderately different markets - North America and Latin America. We have a strong presence in several parts of both North America and Latin America with the focus on delivering performance-based IFS solutions to large customers. Key customer segments include Business Services & IT, Transportation & Infrastructure and Industry & Manufacturing.

North America is the world's largest FM market, accounting for approximately 27% of the global outsourced FM market. In 2017, we focused on enhancing our capabilities and market position in North America – best demonstrated by the acquisition in April of Guckenheimer, a market-leading catering provider with delivery capabilities across the USA, which significantly underlined our focus on output-based IFS solutions.

Latin America accounts for approximately 4% of the world's total outsourced FM market, and is a market with significantly less outsourcing maturity. Latin America remains an important market for ISS as several multinationals have a significant presence in certain geographies. In 2017, we further calibrated our footprint in Latin America to our multinational customers and divestment processes in Argentina and Uruguay have been initiated as a result. In addition, we continued the planned restructuring of our business platform in Brazil.

Going forward, our focus will be on further advancing our IFS capabilities across the region towards key account customers, in particular. We will continue to calibrate our business platform in the region, including a further reinforcement of our technical services capabilities in North America and driving the divestment processes in Argentina and Uruguay.

STRATEGY UPDATE

We started 2017 with a divestment of our non-core landscaping business in North America. In 2017, the onboarding and integration of Guckenhimer was a key focus area. We are progressing according to plan and have retained Guckenhimer's attractive customer portfolio, insourced catering revenues from ISS accounts and driven cost synergies in line with expectations.

Finally, we continued to leverage benefits in terms of volume, concepts and talent by strengthening the deployment capabilities in all countries through the launch of Excellence Centres. This included benefits from the implementation of procurement programmes, roll-out of best practices and training of, and investment in, on-site management through deeper deployment of training and development programmes.

FINANCIALS

Revenue increased by 26% to DKK 9,313 million (2016: DKK 7,407 million). **Organic growth** was 4%, while the impact from acquisitions and divestments, net increased revenue by 22%. All countries except for Brazil delivered positive organic growth rates, with the USA, Mexico, and Chile as the main contributors. Organic growth was supported in particular by non-portfolio services in the IFS division and the start-up of Global Corporate Clients contracts in the USA as well as contract launches in Mexico and Chile. This was partly offset by planned contract exits in Brazil within certain business segments following the structural adjustments of our business platform.

Operating profit before other items was DKK 334 million for an operating margin of 3.6% (2016: 4.1%). The operating margin was impacted by IFS contract start-up costs, the specialised services division in North America underperforming and one-off costs related to contract exits. This was partly offset by a margin improvement in Chile and a strong margin in Mexico, driven by operational efficiencies and a high organic growth in both countries.

OUR BUSINESS MODEL AND STRATEGY

We operate in a market where customers demand that the costs associated with their buildings and facilities continually decrease while the user experience improves.

Our business model and strategy are designed to drive shareholder value within these market conditions.

OUR VISION

“We are going to be the world’s greatest service organisation”

Our ambition encompasses more than performing successfully across regions and industries. We intend to be the leading service organisation globally.

To achieve our vision, we must meet our customers’ needs by offering reliability, responsiveness, convenience, and cost-effectiveness. In fact, we strive to go beyond that. We aim to meet customers’ often unspoken needs and to support their overall business goals by helping to create workplaces that are pleasant, safe, and nurturing for their employees and visitors, as well as for the ISS employees who represent us there.

OUR MISSION

The spirit of our approach is articulated in our mission statement:

Service performance facilitating our customers’ purpose through people empowerment

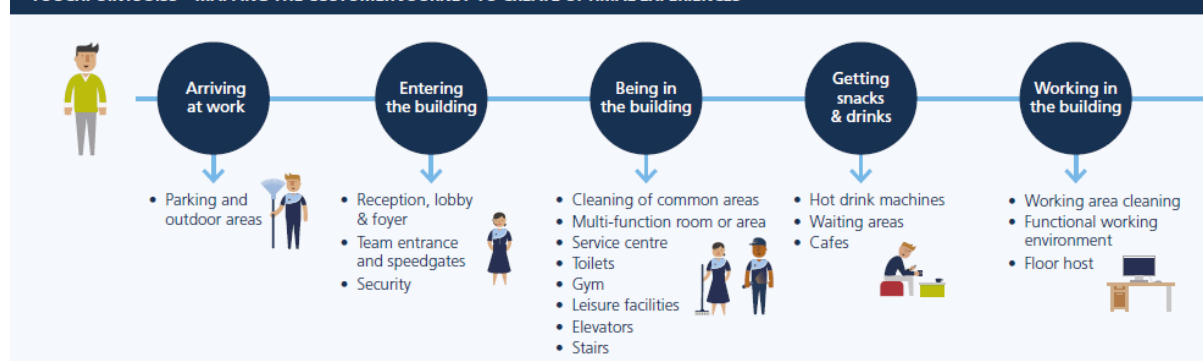
At its core, our mission statement tells a story of a differentiated value proposition. We do not simply deliver services but provide outcomes to customers and focus on how we support their purpose – and the needs of their end-users (see illustration below) – whether our customer is a hospital helping patients get well or a bank focused on providing a pleasant and safe working environment while maintaining compliance with regulatory obligations, and all in a cost-effective manner. Our mission is built on the empowerment of our 488,946 people globally, giving them the flexibility to deliver an exceptional customer experience through an approach rooted in our values and attitude and supported by robust processes and tools.

These factors form the foundation of our value proposition at the centre of which is our self-delivery model.

THE ISS WAY STRATEGY

Our strategy has choice-making at its core: clarity on the customer segments we target, the services we provide, and the places on the globe where we provide them. Through consolidation and alignment of our capabilities, our strategy drives the skill and scale benefits of being a large, global organisation.

TOUCHPOINTS@ISS – MAPPING THE CUSTOMER JOURNEY TO CREATE OPTIMAL EXPERIENCES



We strive to extract these benefits of skill and scale by leveraging our volume through aligning procurement and business processes, sharing of the concepts and best practices our organisation develops, and the proactive management of our comprehensive talent pool.

The advantages of driving these scale benefits are wide-ranging – in terms of both driving cost down and user experience up. Our customers increasingly demand aligned and consistent service performance across all sites. In addition to the savings that procurement drives, using the same supplier across customer sites supports innovation and consistent delivery.

Similarly, service performance based on international best practices is a key source of scale benefits and a driver of our value proposition by e.g. supporting customer compliance and risk management. Finally, talent management promotes a strong and uniform culture which is a core part of our value proposition and helps us attract, retain, and develop the best – from frontline teams to support functions.

OUR MARKET

ISS is a leader in the global USD 1 trillion outsourced facility-services market, which comprises a host of different types of customers, services and providers. Over the past decade, the overall market has grown at mid-single digit rates annually. The market is evolving towards more integrated services which comes alongside stronger centralisation of procurement by customers and a more strategic view of facility services that meets their increasing demand for outcome-oriented service agreements.

In response to this development, boundaries are blurring between market players with different legacies – specifically real estate, design and construction, and facility management – with certain providers strengthening their IFS capabilities and new players and technologies changing the competitive landscape. But with our ability to self-deliver IFS on

a global scale and our legacy in facility management, we have a keen advantage over most competitors in the market.

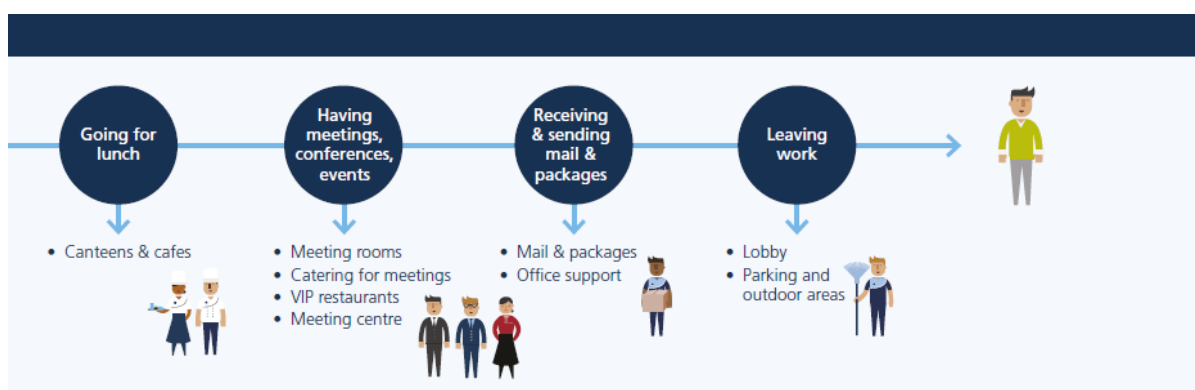
OUR MARKET CHOICES

Our business model is based on taking over facility services that are non-core to our customers, thereby allowing them to concentrate on their core business.

We focus on providing on-site facility services solutions to large and blue-chip customers, with whom our value proposition resonates. The size of these customers allows us to invest in on-site key account management, which is an important factor in delivering our value proposition, as well as processes and enabling technology to meet the demands of this customer base. We are especially focused on delivering IFS to key accounts on a global scale – with our self-delivery model allowing us to gain synergies that enable cost-effective workflows and consistent, high-quality service.

Our key **customer segments** are Business Services & IT (e.g. banks), Industry & Manufacturing (e.g. the automotive industry), Public Administration (e.g. defence) and Healthcare (e.g. hospitals), which combined in 2017 accounted for approximately 65% of Group revenue. As stated above, we focus on our key account customers. According to our analysis, the market potential for facility management spending among ISS's G200 customers (global top 200 existing or potential customers) that have been identified because of their strong opportunity to drive growth – amounts to DKK 336 billion. Our current share is less than 2% of that, underscoring the high potential for ISS to boost organic growth.

Our **selected services** share the following characteristics: people intensive/capex light, on-site delivery, recurring nature, suitable for integration into IFS and performance (output-based) contracts. Cleaning, property (technical) and catering services are delivered globally as single services, multi-services or IFS solutions. Support services, security



and facility management are principally offered as part of IFS contracts. With our strategy focused on delivering IFS solutions, the relative shares of catering and property (technical) are expected to further increase over time.

In 2017, we acquired leading US catering services company Guckenheimer. The acquisition has significantly enhanced our IFS offering to key account customers in the strategically important North American market and strengthened our global catering excellence.

Workplace management services have become an increasingly important part of our service offering, as exemplified by our acquisition of workplace consulting firm SIGNAL in 2017. Through these services, we advise customers on how workplace design can positively impact their employees' engagement and the user experience of their facilities, further strengthening our overall value proposition and the depth of our customer dialogue.

From a **geographical** perspective, we follow our target customers and thus have a global reach covering countries representing approximately 90% of global GDP. This is the result of our customer segment choices. We are already present in the major markets and in the majority of the future mega-cities and are thus focused on consolidating our positions there by increasing the penetration of our selected customer segments and market expansion when supported by customer demand.

DRIVING OUTCOMES

Evaluating the success of our strategy and business model, and ultimately our creation of shareholder value, requires measurement of specific

metrics. By using the six key performance indicators (KPIs) below, we can systematically measure Group performance and the effect of our efforts to achieve our vision. Bonus plans for the Executive Group Management are also based on these KPIs:

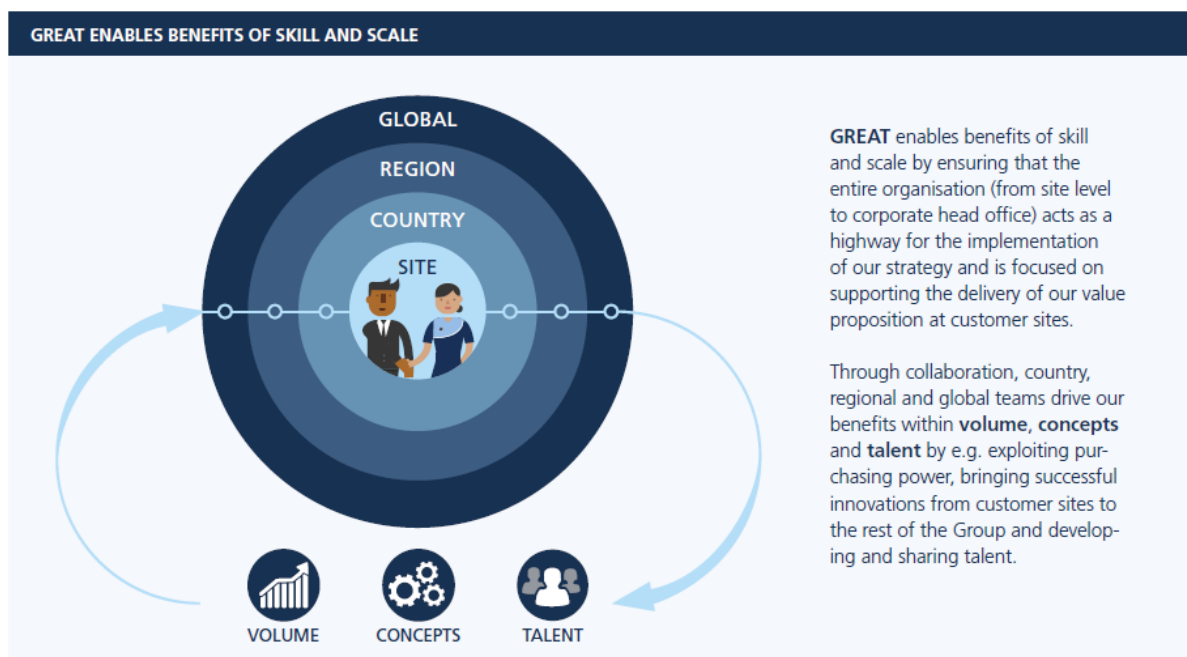
- Organic growth
- Operating margin
- Cash conversion
- Employee Net Promoter Score (eNPS)
- Customer Net Promoter Score (cNPS)
- Lost Time Injury Frequency (LTIF)

EXTRACTING BENEFITS OF SKILL AND SCALE

In 2017, we continued to focus on our strategic GREAT initiatives (1) empowering people through leadership, (2) optimising our customer base, (3) ensuring fit-for-purpose organisational structures, (4) establishing broad-based IFS readiness, and (5) striving for excellence.

Countries representing over 80% of Group revenue have been through the GREAT process or are underway and, as a result, we are securing an aligned set of fit-for-purpose organisational structures designed to serve our selected customers. The structural adjustments in the corporate and regional organisations mirror those made in the country organisations and thus better enable the exploitation of our skill and scale benefits.

We expect to invest DKK 400-450 million in GREAT-related implementations in France and Sweden through 2018-2020. The investments will be linked directly to permanent improvements in country organisational structures and business platforms. When completed, our GREAT implementation will be largely complete.



Outlined below are some of the highlights of our progress through GREAT during 2017 in the extraction of our benefits of skill and scale within volume, concepts, and talent.



VOLUME

We continue to invest in supply chain and procurement and have completed the global organisational transformation. Focus on supply chain excellence, strategic category management and supplier-enabled innovation are progressing according to plan and continue to yield solid results. We have completed phases I-III of our procurement excellence programme, which primarily focused on Europe. Phase IV initiated in Europe and the extension of our procurement initiatives to the Americas and Asia & Pacific are progressing to plan. Identified total gross savings for all phases amount to DKK 750-850 million to be achieved during 2013-2020. While part of these cost savings will increase margins, a substantial amount has been and will continue to be re-invested in the business to maintain and strengthen competitiveness.



CONCEPTS

In our pursuit of excellence and to enhance our value proposition and profitability, we both drive the deployment of our existing best practices and continuously explore innovations in customer segments, services, business systems, and processes.

We continue to apply an increasing level of technology in our solutions. In 2017, we began to introduce new workplace systems at select customer sites, upgrading our facility management system (FMS@ISS) and introducing our new workforce simulation and optimisation tool (Integration@ISS). Through the use of smart sensors and beacons, we can use these tools to further leverage our integrated, self-delivery capabilities. Over time, technology will be used to transform the management of over 25,000 customer buildings around the world.

We view our service performance through the eyes of the user, and this year we continued to introduce our Touchpoints@ISS concept at customer sites, using customer-journey mapping to ensure that we focus on creating the optimal experience in each of the key touchpoints we have with our customers' end-users on a daily basis. See the illustration on pp. 16–17.

We also continued to roll out best practices with a focus on those related to our commercial, operations and people & culture functions.

Within finance excellence, we continue to drive initiatives to support sustained growth and profitability. One example is the implementation of performance management and measurement tools that enable increased transparency and benchmarking across the business.

The ongoing rollout of solutions such as FMS@ISS and our business intelligence tool Insight@ISS continues to yield further transparency and financial benefits, which are key to our value proposition.



TALENT

The ingredient most essential to successfully implementing our strategy is leadership. Given our self-delivery model, our employees are the core enablers of our strategy. In 2017, we continued to invest in developing and empowering our people at all levels of our organisation to ensure the right capabilities and mindset to deliver on our vision.

In 2017, we launched the Leadership Competency Framework – a shared organisational language that helps create a common understanding of what is expected of our leaders. The Leadership Competencies have been integrated in core people processes globally and will continue to be rolled out in 2018. To communicate and embed the Leadership Competency Framework across the business we also launched the Leading the ISS Way programme targeting all senior leaders.

Read more about our specific people initiatives in Our people, on p. 20.

We believe that strong leadership drives employee engagement, which in turn drives customer satisfaction and hence leads to improved financial results. We carried out our customer experience survey for the seventh time in 2017. We invited 6,438 customers across 43 countries to participate and enjoyed a response rate of 86%. Responses cover close to 80% of Group revenue as we focus on inviting IFS, Global Corporate Clients, and key account customers. The KPI for customer experience is cNPS. With a score in 2017 of 44.0 (2016: 43.2) we saw an improvement for the sixth consecutive year. We will continue to measure our leadership through assessments and surveys, and through our KPIs eNPS, cNPS and LTIF, among other benchmarks.

OUR PEOPLE

Great leadership is key to bringing out the true value embedded in our strategy. It is the main driver of the engagement of our people and the desired customer experience.

UNLEASHING THE POWER OF THE HUMAN TOUCH

Our people are the true source of our competitive advantage, and the proof point of our ability to deliver on our value proposition lies in every interaction between our people and our customers. It is our fundamental belief that great service moments can be architected by the right combination of people with a common purpose and the right attitude, who are:

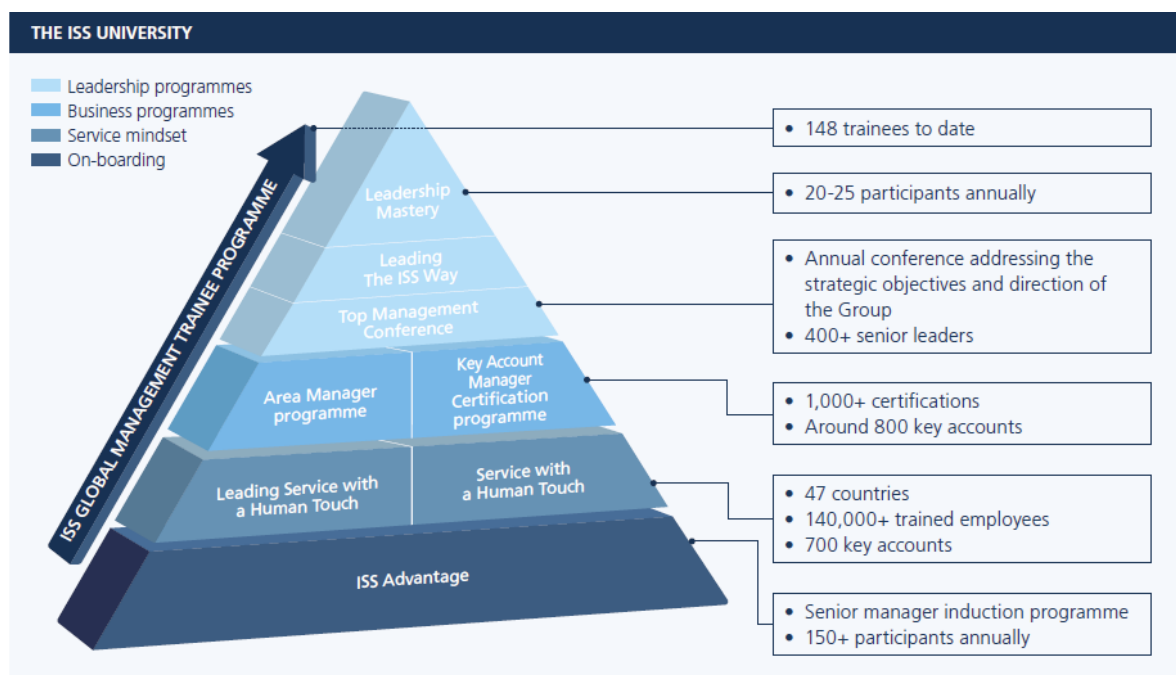
- inspired and supported by the right leadership;
- equipped with the right skills and tools to perform; and
- engaged and empowered to create memorable service moments.

The quality and consistency of our leadership is the biggest single driver of our ability to truly unleash the Power of the Human Touch, which is why we continue to invest in developing our leaders through key Group-wide ISS University programmes.

To ensure that we continuously have the right competencies, we have developed the ISS Leadership Competency Framework, which in 2017 was established as the core of all our people processes from recruitment, performance evaluation, development to succession planning. To further build the leadership needed, in 2017 we launched the **Leading the ISS Way** programme. The programme is targeted at all senior leaders and built specifically to communicate and embed the ISS Leadership Competency Framework across our business. The 2017 Top Management Conference was designed as condensed versions of the three modules in the programme. Through a series of workshops our 400 senior leaders worked with the main themes of Leading Yourself, Leading Others and Leading the Business. In Q4 2017, the programme was handed over to our regions through a train-the-trainer structure, focusing on internal trainers and senior leaders as role models. For 2018, the ambition is that all Country Leadership Teams will go through the programme and establish personal development plans based on the ISS Leadership Competency Framework.

ISS UNIVERSITY

The ISS University is the Group-wide learning academy representing our leadership development programmes which are delivered globally, regionally and locally.



The ISS University is structured to enhance our leadership capability across three core dimensions:

- strategic leadership – building an intimate understanding of our strategy and our key performance drivers
- people leadership – building the self-awareness of our leaders and supporting them in leading their people
- business leadership – equipping our leaders with the business understanding and skills they need to effectively lead their specific part of the business, for example key account leaders, commercial leaders, finance leaders, etc.

A critical building block of the ISS University is our **Key Account Manager Certification (KAMC)** – a modular programme directed at key account managers across the world. Key to successful execution of our strategy, our key account managers hold complex general management positions; are profit and customer accountable and accountable for leading large and diverse teams, often across multiple customer sites. Focus in 2017 was to further sustain and maximise the effect of the programme in the future by engaging the leadership and support structures around our key accounts. At the end of 2017, more than 1,000 certifications had been issued under the programme, touching around 800 of our key accounts globally. The programme consistently shows strong improvement in both the loyalty of our employees and customers, measured by eNPS and cNPS, on the accounts covered by the certification. The retention rate of participating key account managers is 92%, significantly higher than the overall retention rate of leaders in ISS. The objective is to certify managers across all key accounts by the end of Q3 2018.

LEADERSHIP PIPELINE

Ensuring that our leaders are equipped to communicate our strategy and engage the organisation is a key focus area for leadership development. Our leadership programmes provide our employees with an essential understanding of our strategy and give them tools relevant for their day-to-day work.

With that in mind, we continue to run the **ISS Leadership Mastery programme**, a comprehensive five-module programme for selected executives. The focus is on personal leadership development and behaviour, developing a team, securing a deep understanding of our strategy and facilitating greater understanding of customers and employees. So far, 82 senior leaders have graduated from

the Leadership Mastery programme and in 2017, an additional 22 participants were accepted for the programme. Furthermore, we have already seen 32% of the alumni advance into new roles within ISS.

In parallel to the significant focus on developing current leaders, we are looking ahead, and building our pipeline of future leaders through the **ISS Global Management Trainee programme**. This programme is directed at university graduates and we select the brightest and the best in a rigorous assessment process. The benefits of the programme are twofold; it enables us to build a sustainable talent pipeline for the future, while at the same time building our global employer brand in the external marketplace. Our trainees go through an 18-month programme, including an international assignment, before being assigned to their first line appointment. The programme is structured in modules which first enable candidates to build an understanding of the ISS business model and strategy, before moving on to build knowledge of operational excellence and basic key account management capabilities. On graduating from the programme, the trainees typically take up key account manager, contract manager or contract support roles.

Since its launch in Europe in 2013, 148 trainees have gone through the programme, and to date, the retention rate has been 89%. For 2017, we have recruited 55 new trainees and launched the programme in the Asia & Pacific region, which will be followed by the Americas region in 2018.

ENGAGED PEOPLE

Employee engagement is critical for our ability to serve our customers – engaged and motivated employees have a direct impact on the customer experience. For this purpose we survey our employees on how engaged and motivated they are in working for ISS and, more importantly, what we can do better to drive engagement of our people.

In 2017, we carried out our sixth global employee engagement survey covering 44 countries and conducted in 54 languages. Scope has been expanded each year since inception. In 2017, more than 300,000 employees were invited to participate, with 250,697 responding. Once again, the response rate improved, climbing to 78% from 73% in 2016.

The survey revealed an overall employee engagement rating of 4.5 (2016: 4.5) out of a possible 5. As part of the survey, we also measure the loyalty of our employees and their willingness to recom-

mend ISS as an employer (eNPS). For the fifth consecutive year, the score improved, arriving at 62.1, up from 59.2 in 2016.

In response to previous learnings from the survey, we continue the **Service with a Human Touch programme (SWAHT)**, focusing on our frontline employees. This is a key strategic game changer driving cultural change, communicating our mission and translating customer value propositions into concrete service behaviours for thousands of service professionals.

SWAHT is operational in 47 countries, with 600 accredited trainers and more than 140,000 trained employees across 700 key accounts. We will continue the work to continuously improve engagement, which in turn increases the overall sense of purpose of our people in the delivery of our services. We see a clear correlation between employee engagement and customer satisfaction, making them key drivers of financial and operational performance.

HEALTH, SAFETY, ENVIRONMENT AND QUALITY

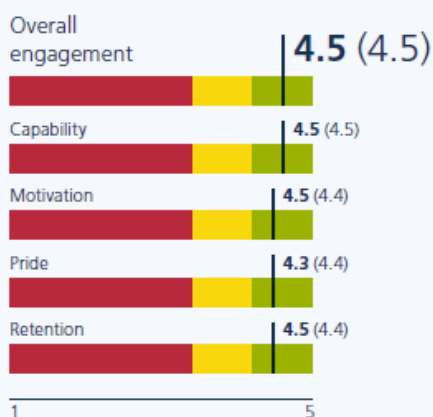
Our concern for health, safety, environment and quality (HSEQ) and initiatives in that respect are aimed both at our employees and customers. We are committed to ensuring that all of our people go home well to their families after a safe working day at ISS. Safety must be second nature to all of us. We have a responsibility for all our employees and we do our utmost to continuously improve our health and safety culture. Our responsibilities also include the health and safety of our customers, as we work side by side with them on a daily basis. Instigating a strong safety culture amongst ourselves will have a positive impact on our customers.

We perform services with different personal health and safety risk profiles. When managing HSE risks we take that into account. For example, our cleaning staff generally have a low-risk job profile, while employees working in technical services operate under slightly more high-risk profiles. At the same time, we also manage health and safety risks in relation to the industries we operate in, some of which have a higher risk profile than others. For example, while an incident in an office environment could potentially impact the personal safety of the office staff, an incident in a data centre resulting in unexpected downtime could potentially impact thousands of people, and not just our customers' employees. Therefore, great service performed by engaged and inspired employees with the right training and skills is not only vital to the growth of our business and the satisfaction of our customers but also to the health and safety of the societies and environments we operate in.

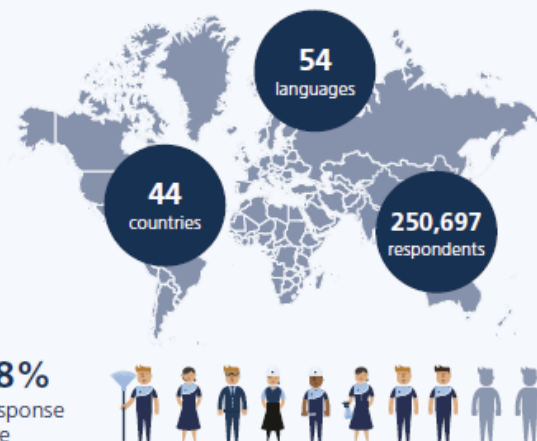
Consistent with our values, our highest priority is to protect our employees from injury. We are steadfast in our commitment to making our workplaces free of hazards. We operate under the assumption that all injuries can be prevented and that injuries are unacceptable. Our goal will always be zero injuries and zero environmental incidents.

In order to stay on course and keep HSE in constant focus, we continue to run global HSE campaigns three times a year with changing focus points reflecting current challenges, e.g. driving safely, working at heights, and slips, trips and falls. In addition, in 2017, we continued the highly successful ISS Toolbox Talk Calendar, building on the feedback received from the launch in 2015. The Toolbox Talk reinforces and embeds safety behaviours as part of our safety culture. Two topics are

GLOBAL EMPLOYEE ENGAGEMENT SURVEY RESULTS



78%
Response
rate



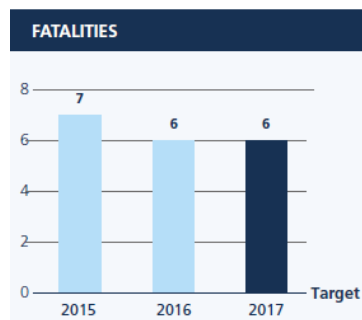
chosen each month to inspire our operational teams to hold Toolbox talks at their sites. We have also developed and rolled out an e-learning module on driver safety to reinforce the behaviours we would like to embed in our organisation.

Read more about CR and HSE initiatives and performance at www.responsibility.issworld.com/report2017.

FATALITIES

In accordance with our HSE vision, our first priority is to prevent fatalities at our workplaces. Sadly, in 2017 we experienced six work-related fatalities. Our Group target is zero fatalities, so we must improve our vigilance. As two of the fatalities were related to working at heights, we will have a special focus in the coming year on working at heights to ensure we manage the risks associated with this activity.

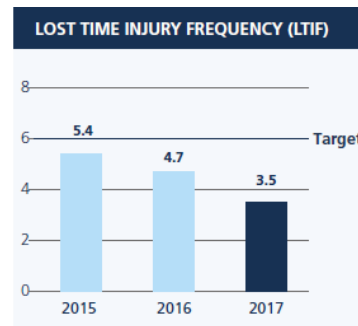
We work to make safety a common responsibility. Our policy is that management at all levels must understand their roles and responsibilities when it comes to safety.



LOST TIME INJURY FREQUENCY

We have improved our performance by over 70% from the baseline figure of 13 in 2010 to an LTIF of 3.5 in 2017, the seventh straight year of improvement. The improvement has been driven by our systematic approach to managing HSE risks since 2010 with:

- the implementation of the Group HSE Management System;
- the implementation of the ISS Safety Rules;
- the implementation of the HSE@ISS-IT system for reporting and investigating incidents, auditing and inspections;
- our global campaigns to keep the focus on HSE; and
- the introduction of our Toolbox Talk Calendar.



CORPORATE RESPONSIBILITY (CR)

OUR APPROACH TO CR

As a global company with more than 488,000 employees, we influence the lives of many people every day through providing employment, training and safe and healthy work environments.

We believe that long-term sustainable business success relies on a high level of CR, as economic, social and environmental issues are inevitably interconnected. CR is therefore a fundamental part of our corporate values and strategy, and universally accepted principles on sustainable development are integral to the way we conduct our business.

CR is also becoming increasingly important for our selected customers as they strive to improve their own business performance and make a positive impact on society. Leading global companies require a consistent CR performance from their partners, and this is often a key factor in winning and retaining contracts. CR is therefore an important part of our value proposition to our customers.

We have adopted a principles-based approach to CR that contributes to sustainable development as defined by the international community. We have developed and rolled out across the Group a strategy for Health, Safety, Environment and Quality (HSEQ) and CR, which supports The ISS Way, our GREAT initiatives and the extraction of benefits of skill and scale within volume, concepts and talent.

**Volume**

By aligning procurement across countries, we ensure better control of the products and services we procure; this results in safer products, more environmentally friendly products and better control of the suppliers we use to deliver our services.

**Concepts**

In our pursuit of excellence and to enhance our value proposition to our customers, we have built an HSE value proposition to our customers. Customers require effective and credible risk management, including risks related to safety, labour conditions and influencing human rights in a positive direction. Our processes and systems within these areas allow us to provide support to our customers in managing these risks.

**Talent**

We have incorporated HSE in our training programmes Service with a Human Touch and Key Account Manager Certification (KAMC) programme, providing a better highway for the deployment of our HSE culture and processes.

OUR HSE VISION '100'

- 1:** We aim to be number 1 in our industry and recognised as an industry leader in the way we deliver Health, Safety, and Environmental performance;
- 0:** We operate with 0 fatalities in our workplaces; and
- 0:** We incur 0 serious incidents and occupational injuries at our workplaces.

STRONG COMMITMENT TO UN GLOBAL COMPACT

As a signatory and supporter of the United Nations Global Compact since its inception in 1999, we have made a strong commitment on human rights, labour rights, environmental protection and anti-corruption. We remain committed to aligning our strategy and operations with the ten Global Compact principles.

Furthermore, we respect, support and promote human rights and support the ambitions set out in the United Nations Universal Declaration of Human Rights, the Core Conventions of the International Labour Organisation and the United Nations Guiding Principles on Business and Human Rights.

TRADE UNION RELATIONS

We remain fully committed to our global agreement with the international network of national labour organisations – Union Network International (UNI) – covering our employees where UNI cooperates with local unions. We continue to work closely with our European Works Council (EWC). We hold quarterly meetings with the steering committee and annual meetings with the entire EWC. At these annual meetings, the EWC visits our head office for three days, and we spend considerable executive management time with them to ensure alignment with our priorities and a common understanding of our strategy and the Group's direction.

DOW JONES SUSTAINABILITY INDEX

ISS has been recognised as a sustainability leader within its sector by achieving a Bronze ranking in the 2017 Dow Jones Sustainability Index. The ranking places ISS in the top 10% of the 44 global companies in the commercial services and supplies sector that are assessed across three dimensions – economic, environmental and social dimension – under the DJSI framework.

OUR CORPORATE RESPONSIBILITY REPORT

 Our full CR report as per section 99a of the Danish Financial Statements Act is available at www.responsibility.issworld.com/report2017. The report also serves as ISS's communication on progress in implementing the ten principles of the Global Compact.

OUR BUSINESS RISKS

At ISS, we see risk management as an important means of supporting value creation – for our customers and for ourselves.

As a global business, we take an active approach to risk management, ensuring that our key risks are structured and prioritised. Supported by our governance structure, key risks are identified, managed and reported throughout the organisation all the way up to the Board of Directors.

Our governance structure, see p. 29.

Our business model is based on taking over facility services that are non-core to our customers. As our services are being integrated into our customers' value streams there is a risk of disrupting our customers' operations if operational risk management or contract requirements are not complied with. Therefore, risk management at ISS is about understanding our customers' risks and supporting their risk management and compliance – just as much as it is about managing our own risks.

FOCUS IN 2017 AND 2018

With the continued focus on key account customers we experience growing demand for risk transfer, operational risk management and contract compliance. To meet this demand, the roll-out of our Contract Risk & Compliance tool continues for selected key accounts and covered 173 accounts (2016: 120 accounts) by the end of 2017. The roll-out will continue for selected key accounts in 2018. Furthermore, efforts in 2018 will be

on migrating the tool into a consistent IT platform to further support a consistent and robust approach to risk management.

Our customers also focus on information security and how we as their service provider comply with information security requirements. Our growing key account business increasingly leads us to hold and manage data related to our customers' business, e.g. basic personal data, asset information, manufacturing plant design and the like. Combined with our business strength within highly regulated industries such as pharma, food manufacturing and banking, this increasingly exposes us to information security and cyber risk. Consequently, our key focus is on continuously improving our information security with a specific focus on HR compliance.

We also prepare for the upcoming changes to regulatory data protection requirements. We have initiated a global General Data Protection Regulations (GDPR) project allowing us to address the risks associated with personal data in a more consistent way.

“A robust risk management setup is key both to securing our own business resilience and license to operate but also to ensuring that our customers' critical processes and facilities such as data centres run without interruption”

PIERRE-FRANÇOIS RIOLACCI
Group CFO

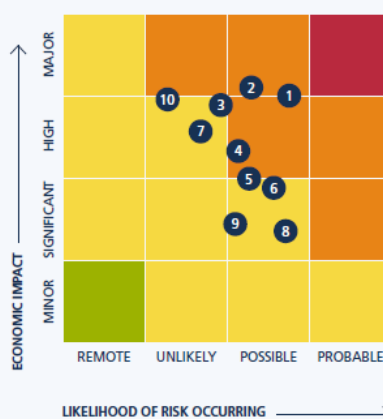
In addition to the above, supplier and sub-contractor risk management will remain a key focus for us in 2018.

GROUP KEY RISKS

Presented in the overview to the left and on the following pages are the key risks that the Group currently faces. The key risks are unchanged from last year but the economic impact and likelihood of occurring have been slightly reassessed for risks no. 2, 5 and 10.

We are also exposed to financial risks related to our operating, investing and financing activities. Financial risk management is described in detail in note 5.4 to the consolidated financial statements.

GROUP KEY RISKS



1. Operational execution including IFS
2. Employee risks
3. Contract risk and governance
4. Regulatory compliance
5. Information security incl. cyber risk
6. Customer retention and competition
7. Financial reporting fraud, fraud and corruption
8. Subcontractors
9. Macroeconomy
10. Reputational risk

GROUP KEY RISKS ¹⁾	RISK DRIVERS	MITIGATING MEASURES
1. Operational execution including IFS As our services are integrated with our customers' value streams, any lack of compliance with operational procedures or contract requirements may disrupt or damage our customers' operations and/or brands.	• Complexity in our service delivery • Customer requirements relating to operational control and risk management, e.g. in the banking and pharmaceutical industries	• Contract Risk & Compliance tool • ISS facility management IT system (FMS@ISS) implemented for selected major accounts. Supports automation of operating processes and ensures that services are delivered and managed according to the process frameworks • Operational risk reviews on selected contracts as part of the global risk management framework • Group HSE policies • Group Escalation Policy and Emergency Response Plan
2. Employee risks Our success depends on our ability to attract, develop and retain talented and engaged people. It requires that we take good care of our people with respect to HSE and work environment. We depend on our leaders throughout the organisation to lead by example and to empower their colleagues to mitigate risk.	• "War for talent" • Customer requirements on HSE • Decentralised structure • Customers' compliance requirements • Increased risk of terror in the world	• Group People & Culture standards • Focus on leadership development and training • Global People Standards and Group HSE policies • Global employee engagement surveys
3. Contract risk and governance The profitability of our contracts depends upon our ability to successfully calculate prices by taking economic factors, legal and other risk elements into consideration, and to manage our day-to-day operations under these contracts.	• Complexity in contracts and services, e.g. IFS and energy management • Increasing contract volumes, e.g. the increasing share of Global Corporate Clients	• Framework and IT tool for contract risk management (CRAM@ISS) • Approval procedure for large contracts • Contract risk reviews performed by Group Risk Management for specific contracts • High risk contract dashboard for monitoring limitation of liability
4. Regulatory compliance We are subject to a variety of complex and restrictive laws and regulations such as labour, employment, immigration, health and safety, tax (including social security, withholding and transfer pricing), corporate governance, customer protection, business practices, competition and the environment.	• Changes in local regulations and stepped-up enforcement • Customers outsourcing a part of their compliance management to ISS	• Group Corporate Governance Policy • Code of Conduct, Anti-Corruption Policy and Competition Law Policy • Mandatory e-learning modules in Code of Conduct, anti-corruption, anti-bribery and competition law for selected managers and employees
5. Information security incl. cyber risk Due to our growing IFS business, we increasingly hold and manage data related to customers' businesses, e.g. basic personal data, asset information, manufacturing plant design and the like. Combined with our business strength in highly regulated industries such as pharma, food manufacturing and banking, this increasingly exposes us to information security and cyber risk.	• IFS contracts • Change in data privacy regulations • Risk of cyber attacks	• Information Security Policy and other Group IT policies and procedures • Global project related to General Data Protection Regulation (GDPR) including process initiated to implement Binding Corporate Rules (BCR) for the exchange of personal data between ISS Group companies

¹⁾ The risks are presented in the context of the entire Group, which means that the risks identified are considered to be globally applicable throughout the organisation. Consequently, the mitigation action plans are largely Group initiatives, or at least initiatives with the ultimate owner in a Group function. As a consequence, the risk environment and the prioritisation of Group risk mitigation action plans may be different at country level, reflecting the different maturity levels throughout the Group.

GROUP KEY RISKS ¹⁾	RISK DRIVERS	MITIGATING MEASURES
6. Customer retention and competition Our ability to target selected customer segments with attractive and competitive value propositions is key to attracting and retaining IFS, multi-service and single service customers. Failure to develop and execute on value propositions may lead to increased price competition and contract losses as the facility services market is fragmented with relatively low barriers to entry and significant competition from local and regional players.	• Customer concentration • Key account management • Inconsistent service delivery for key accounts • Strategic market position	• Roll-out of Customer Relationship Management system (CRM@ISS) • Measuring customer satisfaction (cNPS) through an annual survey covering most of the Group's revenue • Continued roll-out of KAMC
7. Financial reporting fraud, fraud and corruption Our decentralised structure of financial IT systems and operational control structures increases the risk of fraud and corruption. Our presence in emerging markets increases our exposure to compliance risks in countries where improper practices may be common.	• Exposure in emerging markets • Decentralised financial IT systems and control structures • Step-up in extraterritorial regulations and enforcement	• Well-established and documented control environment, see p. 32 • Review of the integrity and robustness of interfaces as an integral part of internal audit assignments • Monitoring the implementation of key controls through the system of Control Self-Assessment • Mandatory e-learning modules on Code of Conduct, anti-corruption, anti-bribery and competition law for selected managers and employees • Speak Up policy (whistleblower system hosted by third party) • Roll-out of automated interfaces between local ERP platforms and the Group's standardised financial reporting tool, see p. 32
8. Subcontractors We depend on subcontractors where we do not have self-delivery capabilities. This represents a risk primarily with respect to: • Performance – if subcontractors do not perform in accordance with the customer contract ISS has entered into. • Compliance – potential risk of non-compliance with labour laws or other regulatory requirements.	• Growth in countries with low IFS capabilities • Growth in Global Corporate Clients portfolio • Complexity of service delivery • High-profile customers	• Negotiation Process Framework • Separate framework when using subcontractors in countries with no ISS presence • Supplier Code of Conduct • Global vendor risk-based vetting and approval system being developed and rolled out (ProcurePass@ISS)
9. Macroeconomy In recent years, financial turmoil has been recurring and has affected the global economy, in particular in southern Europe and in emerging markets. Revenue, operating margin, cash conversion and debt position could potentially be adversely impacted.	• Financial turmoil • Customers downsizing their businesses or reducing their demand for services • Brexit	• Balanced and diversified revenue base • On-going formal monitoring of market developments
10. Reputational risk Protecting our reputation is the responsibility of every employee, because our reputation is shaped by all actions and statements made by ISS.	• Complexity in service delivery • High-profile customers • Use of social media	• Any incident or issue must be escalated to senior-level management for evaluation • Crisis communication plan integrated in Group Escalation Policy and Group Crisis Response Plan • Media handling and monitoring tools • Media communication guidelines

CORPORATE GOVERNANCE

The management team of the Group formally consists of the Board of Directors and the Managing Director of ISS Global A/S. Since ISS Global A/S has no operating activities of its own, the Group relies on the management team of ISS A/S, the ultimate parent company in Denmark. As a subsidiary of ISS A/S, ISS Global A/S is subject to the same corporate governance policies applicable in ISS A/S. Corporate governance of the ISS Global Group is therefore built on corporate governance of the ISS A/S Group, including the management team, and the descriptions throughout this chapter should be seen in this context.

We base our corporate governance on transparency, constructive stakeholder dialogue, sound decision-making processes and controls for the benefit of the Group and our stakeholders.

FRAMEWORK AND RECOMMENDATIONS

The Board of Directors (Board) regularly reviews the Group's corporate governance framework and policies in relation to the Group's activities, business environment, corporate governance recommendations and statutory requirements; and continuously assesses the need for adjustments.

The 2017 statutory report on corporate governance, which is available at <http://inv.issworld.com/governancereport.cfm>, provides an overview of our overall corporate governance structure and our position on each of the Danish Corporate Governance Recommendations.

At the end of 2017, we complied with all of the Danish Corporate Governance Recommendations, except recommendation 3.1.4 regarding stipulating a retirement age for board members in the articles of association. Considering international trends, the nomination process focusing on the candidate's background, competencies and experience and recent Danish legislation on age discrimination, a resolution to delete the retirement age in the Company's Articles of Association was adopted by the 2016 annual general meeting.

The Board reviews the Group's capital structure on an ongoing basis. The Board believes the present capital and share structure serves the best interests of both the shareholders and ISS as it gives ISS the flexibility to pursue strategic goals thus supporting long-term shareholder value, combined with short-term shareholder value by way of ISS's dividend policy.

GOVERNANCE STRUCTURE

The shareholders of ISS A/S exercise their rights at the general meeting, which is the supreme governing body of ISS.

Rules on the governance of ISS A/S, including share capital, general meetings, shareholder decisions, election of members to the Board of Directors, Board meetings, etc. are described in our Articles of Association, which are available at <http://inv.issworld.com/articles.cfm>.

MANAGEMENT

Management powers are distributed between our Board and our Executive Group Management Board (EGMB). No person serves as a member of both of these corporate bodies. Our EGMB carries out the day-to-day management, while our Board supervises the work of our EGMB and is responsible for the overall management and strategic direction.

BOARD OF DIRECTORS

The primary responsibilities of the Board and the four board committees established by the Board are outlined in our governance structure overleaf.

In 2017, the Board performed an internal evaluation of the Board's performance led by the chairman of the Board, including the performance of its individual members and an evaluation of the performance of the EGMB and of the cooperation between the Board and the EGMB. For further details, please see response to recommendation 3.5.1 of the 2017 statutory report on corporate governance.

Board members elected by the general meeting stand for election each year at our annual general meeting. Board members are eligible for re-election.

1 ST LEVEL	THE BOARD OF DIRECTORS (BOARD)	
	Responsible for the overall management and strategic direction of the Group, including: • strategy plan and annual budget • appointing members of the EGMB • supervising the activities of the Group • reviewing the financial position and capital resources to ensure that these are adequate The Board receives a monthly financial reporting package and is briefed on important matters in between board meetings.	Meetings 12 meetings held in 2017. The Board convenes at least six times a year, including for one strategy meeting
	BOARD COMMITTEES	
	AUDIT AND RISK COMMITTEE • Evaluates the external financial reporting and use of significant accounting estimates and judgement related to items such as impairment tests, disposal of assets and deferred tax, see section 1 to the consolidated financial statements • Monitors the Group internal audit function • Monitors and considers the relationship with the independent auditors, reviews the audit process and recommends auditors to the Board • Reviews and monitors the Group's risk management and internal controls • Evaluates the Financial Policy, the Tax Policy and the Dividend Policy • Six meetings held in 2017	NOMINATION COMMITTEE • Assists the Board in ensuring that appropriate plans and processes are in place for the nomination of candidates to the Board and the EGMB • Evaluates the composition of the Board and the EGMB • Makes recommendations for nomination or appointment of members of the Board, the EGMB and the board committees • One meeting held in 2017
	REMUNERATION COMMITTEE • Assists the Board in preparing the remuneration policy and the overall guidelines on incentive pay • Recommends to the Board the remuneration of the members of the Board and the EGMB, approves remuneration of EGM as well as the remuneration policy applicable to ISS in general • Two meetings held in 2017	TRANSACTION COMMITTEE • Makes recommendations to the Board in respect of certain large acquisitions, divestments and customer contracts • Reviews the transaction pipeline • Considers ISS's procedures for large transactions • Evaluates selected effected transactions • Three meetings held in 2017
2 ND LEVEL	EXECUTIVE GROUP MANAGEMENT (EGM)	
	Carries out the day-to-day management of the Group, including: • developing and implementing strategic initiatives and Group policies • designing and developing the organisational structure • monitoring Group performance • evaluating and executing investments, acquisitions, divestments and large customer contracts	• assessing on an ongoing basis whether the Group has adequate capital resources and liquidity to meet its existing and future liabilities • establishing general procedures for accounting, IT organisation, risk management and internal control
3 RD LEVEL	COUNTRY LEADERSHIP	
	Appointed to manage the business in accordance with Group policies and procedures as well as local legislation and practice of each country, including managing operations in their market	 Country leadership teams are set out under each relevant country at www.issworld.com

Three employee representatives serve on the Board. They are elected on the basis of a voluntary arrangement regarding Group representation for employees of ISS World Services A/S as further described in the Articles of Association. Employee representatives serve for terms of four years. The current employee representatives joined the Board after the annual general meeting held in April 2015.

EXECUTIVE GROUP MANAGEMENT BOARD

The members of the EGMB are the Group CEO and Group CFO. Together, they form the management registered with the Danish Business Authority. The Group has a wider Executive Group Management (EGM), whose members are seven Corporate Senior Officers of the Group in addition to the EGMB. The primary responsibilities of the EGM are outlined in our governance structure on p. 29.

COMPETENCIES AND DIVERSITY

As one of the world's largest private employers and with operations in 46 countries and more than 488,000 employees, we are committed to fostering and cultivating a culture of diversity and inclusion in the broadest sense. The Board and the EGM recognise the importance of promoting diversity at management levels and have implemented policies regarding competencies and diversity in respect of Board and EGMB nominations according to which we are committed to selecting the best candidate while aspiring to have diversity in gender as well as in broader terms such as international experience. Emphasis is placed on:

- experience and expertise (such as industry, risk management, finance, financing, strategy, international business, labour force management and HR, management and leadership);
- diversity (including age, gender, new talent and international experience) as well as diversity of perspectives brought to the Board or the EGM; and
- personal characteristics matching ISS's values and leadership principles.

The Board has adopted a gender diversity target of having at least 40% women on the Board by 2020¹⁾. Currently, 33% of our Board members are women. The target was not reached in 2017.

The Board found that it in broad terms possessed a high level of diversity and did not nominate new Board candidates in 2017.

In terms of international experience, the Board aims to have sufficient international experience at all management levels taking into account the size and activities of ISS. The Board considers that it has diverse and broad international experience. The EGMB is considered to have the necessary international experience if half of its members have international experience from large international companies. The current members of the EGMB have international experience.

In order to promote, facilitate and increase the number of women in management level positions at ISS's global head office, we continue leveraging our Diversity Policy, which defines a number of initiatives. Our initiatives include our recruitment policy, requiring that we short list at least one female candidate in all internal and external searches for vacant positions. It is furthermore our policy to continuously develop our succession planning aiming at identifying female successors and tabling the matter of women in leadership at ISS for discussion at least once a year at EGM level. In 2017, we launched our 2020 Talent Vision which has specific targets for female representation in succession plans for EGM and their direct reports, and the succession plans, diversity targets and progress were reviewed by the EGM as well as the Board. Furthermore, it is our policy to ensure strong representation of women in various ISS leadership development and graduate programmes across the Group and at the global head office. We had 20% female representation at our 2017 annual global Top Management Conference, and 20% female participation in our Leadership Mastery development programme and we actively identify female candidates for these programs to ensure adequate gender diversity. 50% of the Global Management Trainees recruited in 2017 were women. The policy and initiatives create an increased focus on gender diversity across the organisation leading to satisfactory progress.

The representation of women at management level at the global head office increased slightly in 2017 compared to 2016 and gender diversity remains a focus area in 2018.

¹⁾ In respect of the specific target for ISS Global A/S, the Board of Directors of ISS Global A/S has decided to target an increase in the number of women on the Board of Directors from none to at least one member by the annual general meeting in 2021. This is a target only and in selecting new board members, ISS remains committed to always selecting the best person for the Board of Directors based on competencies, experience and diversity. As ISS Global A/S does not have any employees a policy promoting gender diversity at other management levels has not been adopted.

ASSURANCE

EXTERNAL AUDIT

The Group's financial reporting and internal controls are audited by the independent auditors elected by the annual general meeting. The nomination follows an assessment of the qualifications, objectivity and independence of the auditors and the effectiveness of the audit process. Board members receive the auditors' longform audit reports which are reviewed by the Audit and Risk Committee.

GROUP INTERNAL AUDIT (GIA)

GIA regularly reports to the Audit and Risk Committee and the Board, and its activities are governed by a charter approved by the Board.

The work of GIA and internal controls are described on p. 33.

SPEAK UP POLICY (WHISTLEBLOWER)

The Group has adopted its "Speak Up Policy" and reporting system to enable employees, business partners and other stakeholders to confidentially report serious and sensitive concerns to the Head of GIA via a secure and externally hosted reporting tool or via our telephone hotline, both accessible via the ISS website.

SPECIFIC MATTERS TRANSACTED BY THE BOARD IN 2017

- Acquisition of US catering services company Guckenheimer
- Review and approval of large IFS bids and contracts, including Deutsche Telekom
- New General Data Protection Regulation (GDPR)

KEY MATTERS TRANSACTED ANNUALLY BY THE BOARD

- Overall strategy, business and action plan
- Annual budget
- Capital and share structure as well as financing
- Financial Policy
- Dividend Policy
- External financial reporting, corporate governance report and CR report
- Material risks and risk management reporting
- Internal controls, procedures and risks related to financial reporting
- IT security
- Corporate governance
- Competencies, composition and independence of the Board
- Succession planning
- Evaluation of performance of the Board, individual board members, performance of the EGMB and cooperation between the Board and the EGMB
- Diversity
- Remuneration policy and guidelines on incentive pay
- Deep dives on regional operations
- Review of the agenda of Group Commercial, Global Operations and People & Culture
- Recommendation of auditors for election at the annual general meeting

INTERNAL CONTROLS RELATING TO FINANCIAL REPORTING

Quality and efficiency of financial reporting is a fundamental objective, requiring a strong governance and internal controls framework.

ASSURANCE

The overall assurance responsibility follows our governance structure, see p. 29.

Group Internal Audit (GIA) is responsible for providing an objective and independent assessment of the effectiveness and quality of the internal controls in accordance with the internal audit plan approved by the Audit and Risk Committee. To ensure that GIA works independently of the Executive Group Management Board (EGMB), it operates under a charter approved by the Board of Directors (Board) and reports not only to the Group CFO, but also directly to the Audit and Risk Committee. Policies of relevance to financial reporting include the Code of Conduct, the Accounting Manual, the Reporting Manual, the Financial Policy, Control Procedures and the Escalation Policy.

GIA's responsibility is to provide the Board and the EGMB with reasonable assurance that:

- internal controls are in place to support the quality and efficiency of the financial reporting processes;
- significant risks are identified and material misstatements are detected and corrected; and
- the financial reporting is in compliance with ISS policies and procedures and gives a true and fair view of the Group's financial position and results.

Country leadership is responsible for ensuring that an adequate control environment is in place in each operating country to prevent material errors in the country's financial reporting. Regional management provides governance of the country control environment.

Group Controlling is responsible for controlling the financial reporting from subsidiaries and for preparing the consolidated financial reporting.

The EGMB annually identifies and assesses the material financial reporting risks and decides which control activities and systems are required to detect and prevent such risks. This is done based on a materiality test, including an assessment of the impact of quantitative and qualitative factors and an assessment of the likelihood of any material error occurring.

To challenge the EGMB, the Audit and Risk Committee on an ongoing basis discusses:

- the overall effectiveness of the internal controls; and
- accounting for material legal and tax issues and significant accounting estimates.

CONTROL ACTIVITIES

The Group has implemented a formalised financial reporting process, which includes the reporting requirements and related control activities for key areas illustrated in the table overleaf. In addition to the use of a standardised process and system for the consolidated financial reporting, the work to strengthen controls for financial reporting continues through the implementation across the Group of a shared ERP system platform. At the end of 2017, the ERP system had been implemented in 22 countries representing 30% of Group revenue. Furthermore, we initiated the development and roll-out of common finances processes in 2017.

The roll-out of an automated interface has improved the consistency between local ERP systems and the Group's standard financial reporting tool. At the end of 2017, the automated interface was in place for 36 countries representing 86% of Group revenue. The objective is to reach all remaining countries where ISS operates and has an office by the end of 2018.

An essential element to ensure the correct and timely financial reporting is the availability of relevant information to the employees involved in the process. For this purpose, information and communication systems have been established, providing easy access to the appropriate information, including the Accounting Manual, the Reporting Manual, the Budgeting Manual and other relevant guidelines.

THE WORK OF GROUP INTERNAL AUDIT

GIA performs audits across the Group. The annual audit planning is based on the group key risks as described on pp. 25–27, a risk assessment performed for the individual countries and the outcome of the annual control self-assessment survey.

The internal audit framework consists of three elements:

- a baseline audit programme which assesses the internal controls and compliance across 70 key control activities;
- a contract audit programme which assesses the internal controls and contract compliance for global, regional and country key accounts; and
- audit programmes with a risk-based focus designed to perform detailed assessments of the controls and compliance for individual risk areas or control measures.

In 2017, GIA performed 32 baseline audits in individual countries and 16 contract audits. In addition, it performed 19 risk based audits covering internal control areas related to compliance and the quality and effectiveness of financial reporting. Further, 12 audits were performed of the governance and internal controls within Group corporate functions.

The findings and conclusions of the internal audits, including recommendations on how to improve the control environment, are reported

to the relevant country and regional management, the EGMB and the independent Group auditors. The key findings are presented to the Audit and Risk Committee, which evaluates the results and considers the conclusions when reviewing the internal audit plan for the coming year.

To support the efforts to improve the internal controls environment,

GIA tracks the progress on resolving the audit findings. Reports on the progress are prepared for the Audit and Risk Committee, the EGMB, and regional management. Follow-up audits are performed to provide assurance on the implementation of the measures to resolve audit findings.

ITEM	REPORTING	CONTROL ACTIVITIES
Financial position and results	All countries report income statement, statement of financial position, statement of cash flows, portfolio analysis etc. monthly.	Group Controlling monitors and controls the reporting for significant deviations compared to budget.
Cash flow forecasts	All countries report their working capital and daily liquidity cash flow forecasts for a rolling three-month period bi-weekly.	Actual figures are continuously monitored and validated by Group Treasury for deviations compared to forecasted figures, including e.g. daily follow-up on local material cash balances.
Business reviews	All countries report an income statement, statement of financial position, statement of cash flows, portfolio analysis, and contract performance etc. monthly.	Monthly meetings between regional management and country leadership with a focus on the current performance and the state of the business.
Budgets and financial plans	All countries prepare budgets and plans for the following financial year in a predefined format.	EGMB and Regional management reviews the proposed budgets and plans with the countries.
Full-year forecasts	All countries update and report their full-year forecasts twice a year.	EGMB and Regional management review the proposed full-year forecasts with the countries in light of the current performance and the state of the business.
Strategy reviews	Country leadership provide annual updates of a predefined strategy template, including progress on key strategic priorities.	Annual meetings between regional management and country leadership at which the strategy is discussed and priorities and plans for the coming year are agreed.
Acquisitions and divestments	Acquisition and divestment proposals are presented in a predefined report format and valuation model.	Depending on size, approval is required by regional management, EGMB or Transaction Committee/ Board.
Large contracts	Bids for large contracts are presented in a predefined format focusing on risk evaluation.	Depending on size, approval is required by regional management, EGMB or Transaction Committee/ Board.
Control self-assessments	Once a year, country leadership performs a self-assessment of the implementation of certain key internal control activities and develop plans to close any implementation gaps.	GIA performs ongoing audits based on the countries' control self-assessment.

CONSOLIDATED FINANCIAL STATEMENTS

PRIMARY STATEMENTS

- 35 Consolidated income statement
- 36 Consolidated statement of comprehensive income
- 37 Consolidated statement of cash flows
- 38 Consolidated statement of financial position
- 39 Consolidated statement of changes in equity

40 SECTION 1 BASIS OF PREPARATION

SECTION 2 OPERATING PROFIT AND TAX

- 42 2.1 Segment and revenue information
- 44 2.2 Translation and operational currency risk
- 45 2.3 Other income and expenses, net
- 47 2.4 Income taxes
- 48 2.5 Deferred tax

SECTION 3 WORKING CAPITAL AND CASH FLOW

- 50 3.1 Trade receivables and credit risk
- 52 3.2 Other receivables
- 52 3.3 Other liabilities
- 52 3.4 Changes in working capital

SECTION 4 STRATEGIC ACQUISITIONS AND DIVESTMENTS

- 53 4.1 Acquisitions
- 55 4.2 Divestments
- 56 4.3 Pro forma revenue and operating profit before other items
- 57 4.4 Assets and liabilities held for sale
- 58 4.5 Discontinued operations
- 59 4.6 Intangible assets
- 60 4.7 Goodwill impairment
- 61 4.8 Impairment tests

SECTION 5 CAPITAL STRUCTURE

- 64 5.1 Equity
- 65 5.2 Loans and borrowings
- 66 5.3 Financial income and expenses
- 66 5.4 Financial risk management
- 68 5.5 Interest rate risk
- 69 5.6 Liquidity risk
- 70 5.7 Currency risk

SECTION 6 REMUNERATION

- 71 6.1 Remuneration to the Board of Directors and the Executive Group Management
- 72 6.2 Share-based payments
- 75 6.3 Pensions and similar obligations
- 77 6.4 Government grants

SECTION 7 OTHER REQUIRED DISCLOSURES

- 78 7.1 Property, plant and equipment
- 80 7.2 Provisions
- 81 7.3 Contingent liabilities
- 81 7.4 Average number of employees
- 82 7.5 Related parties
- 83 7.6 Other segment information
- 84 7.7 Fees to auditors
- 84 7.8 Subsequent events
- 84 7.9 New standards and interpretations not yet implemented
- 86 7.10 Group companies

CONSOLIDATED INCOME STATEMENT

1 JANUARY – 31 DECEMBER

		2017				2016	
		Adjusted results	Acqui- sition- related	Reported results	Adjusted results	Acqui- sition- related	Reported results
DKK million	Note						
Revenue	2.1	79,951	-	79,951	78,699	-	78,699
Staff costs	6.3, 6.4	(49,695)	-	(49,695)	(49,966)	-	(49,966)
Consumables		(7,340)	-	(7,340)	(6,603)	-	(6,603)
Other operating expenses	7.7	(17,207)	-	(17,207)	(16,392)	-	(16,392)
Depreciation and amortisation ¹⁾	4.6, 7.1	(650)	-	(650)	(648)	-	(648)
Operating profit before other items		5,059	-	5,059	5,090	-	5,090
Other income and expenses, net	2.3	(606)	-	(606)	(213)	-	(213)
Royalty		(1,264)	-	(1,264)	(1,266)	-	(1,266)
Goodwill impairment	4.7	-	(34)	(34)	-	(194)	(194)
Amortisation/impairment of brands and customer contracts	4.6	-	(225)	(225)	-	(359)	(359)
Operating profit	2.1, 7.6	3,189	(259)	2,930	3,611	(553)	3,058
Financial income	5.3	66	-	66	80	-	80
Financial expenses	5.3	(595)	-	(595)	(531)	-	(531)
Profit before tax		2,660	(259)	2,401	3,160	(553)	2,607
Income taxes	2.4, 2.5	(804)	143	(661)	(904)	129	(775)
Net profit from continuing operations		1,856	(116)	1,740	2,256	(424)	1,832
Net loss from discontinued operations	4.5	(86)	(16)	(102)	(8)	(0)	(8)
Net profit		1,770	(132)	1,638	2,248	(424)	1,824
Attributable to:							
The owner of ISS Global A/S				1,633	1,820		
Non-controlling interests				5	4		
Net profit				1,638	1,824		

¹⁾ Excluding Goodwill impairment and Amortisation/impairment of brands and customer contracts.

Background for the income statement presentation is described in Section 1, p. 40.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

DKK million	Note	2017	2016
Net profit		1,638	1,824
Items not to be reclassified to the income statement in subsequent periods			
Actuarial gains/(losses)	6.3	192	(79)
Impact from asset ceiling regarding pensions	6.3	(45)	(6)
Tax	2.5	(53)	22
Items to be reclassified to the income statement in subsequent periods			
Foreign exchange adjustments of subsidiaries and non-controlling interests		(659)	(475)
Other comprehensive income		(565)	(538)
Comprehensive income		1,073	1,286
Attributable to:			
The owner of ISS Global A/S		1,068	1,282
Non-controlling interests		5	4
Comprehensive income		1,073	1,286

CONSOLIDATED STATEMENT OF CASH FLOWS

1 JANUARY – 31 DECEMBER

DKK million	Note	2017	2016
Operating profit before other items		5,059	5,090
Operating profit before other items from discontinued operations	4.5	(2)	23
Depreciation and amortisation	4.6, 7.1	652	651
Share-based payments		4	50
Changes in working capital	3.4	82	(129)
Changes in provisions, pensions and similar obligations		(246)	(191)
Other expenses paid	2.3	(392)	(181)
Interest received from companies within the ISS Group		28	23
Interest received, external		41	55
Interest paid to companies within the ISS Group		(27)	(13)
Interest paid, external		(378)	(330)
Income taxes paid	2.4	(709)	(746)
Payments related to royalties		(1,360)	(1,346)
Cash flow from operating activities		2,752	2,956
Acquisition of businesses	4.1	(1,650)	(155)
Divestment of businesses	4.2	229	187
Acquisition of intangible assets and property, plant and equipment		(855)	(764)
Disposal of intangible assets and property, plant and equipment		85	69
(Acquisition)/disposal of financial assets		(7)	26
Cash flow from investing activities		(2,198)	(637)
Proceeds from bonds	5.2	4,439	-
Repayment of senior facilities	5.2	(2,230)	-
Other financial payments, net	5.2	223	(841)
Dividends paid to shareholders		(1,200)	(2,185)
Payments (to)/from companies within the ISS Group, net		408	560
Dividends paid to non-controlling interests		(5)	(4)
Cash flow from financing activities		1,635	(2,470)
Total cash flow		2,189	(151)
Cash and cash equivalents at 1 January		4,272	4,510
Total cash flow		2,189	(151)
Foreign exchange adjustments		(241)	(87)
Cash and cash equivalents at 31 December		6,220	4,272

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

DKK million	Note	2017	2016
ASSETS			
Intangible assets	4.6, 4.8	19,492	18,818
Property, plant and equipment	7.1	1,575	1,555
Deferred tax assets	2.5	700	861
Other financial assets		324	350
Non-current assets		22,091	21,584
Inventories		286	276
Trade receivables	3.1	11,583	11,307
Tax receivables		204	222
Receivables from companies within the ISS Group		2,314	2,233
Other receivables	3.2	1,892	1,922
Cash and cash equivalents		6,220	4,272
Assets held for sale	4.4	1,316	1,625
Current assets		23,815	21,857
Total assets		45,906	43,441
EQUITY AND LIABILITIES			
Equity attributable to the owner of ISS Global A/S		1,946	2,078
Non-controlling interests		10	10
Total equity	5.1	1,956	2,088
Loans and borrowings	5.2	17,164	14,897
Pensions and similar obligations	6.3	1,291	1,638
Deferred tax liabilities	2.5	754	794
Provisions	7.2	218	256
Non-current liabilities		19,427	17,585
Loans and borrowings	5.2	6,964	6,510
Trade payables		4,320	3,990
Tax payables		272	339
Other liabilities	3.3	12,306	12,316
Provisions	7.2	233	187
Liabilities held for sale	4.4	428	426
Current liabilities		24,523	23,768
Total liabilities		43,950	41,353
Total equity and liabilities		45,906	43,441

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 JANUARY – 31 DECEMBER

		Attributable to the owner of ISS Global A/S					
DKK million	Note	Share capital	Retained earnings	Translation reserve	Total	Non-controlling interests	Total equity
2017							
Equity at 1 January		180	1,662	236	2,078	10	2,088
Net profit		-	1,633	-	1,633	5	1,638
Other comprehensive income		-	94	(659)	(565)	(0)	(565)
Comprehensive income		-	1,727	(659)	1,068	5	1,073
Dividends paid to shareholders	5.1	-	(1,200)	-	(1,200)	-	(1,200)
Dividends paid to non-controlling interests		-	-	-	-	(5)	(5)
Transactions with the owner		-	(1,200)	-	(1,200)	(5)	(1,205)
Changes in equity		-	527	(659)	(132)	(0)	(132)
Equity at 31 December		180	2,189	(423)	1,946	10	1,956
2016							
Equity at 1 January		180	2,090	711	2,981	10	2,991
Net profit		-	1,820	-	1,820	4	1,824
Other comprehensive income		-	(63)	(475)	(538)	0	(538)
Comprehensive income		-	1,757	(475)	1,282	4	1,286
Dividends paid to shareholders	5.1	-	(2,185)	-	(2,185)	-	(2,185)
Dividends paid to non-controlling interests		-	-	-	-	(4)	(4)
Transactions with the owner		-	(2,185)	-	(2,185)	(4)	(2,189)
Changes in equity		-	(428)	(475)	(903)	0	(903)
Equity at 31 December		180	1,662	236	2,078	10	2,088

BASIS OF PREPARATION

SECTION 1

CORPORATE INFORMATION

The consolidated financial statements of ISS Global A/S as of and for the year ended 31 December 2017 comprise ISS Global A/S and its subsidiaries (together referred to as "the Group"). Significant subsidiaries are included in 7.10, Group companies.

The Annual Report for ISS Global A/S for 2017 was discussed and approved by the Managing Director and the Board of Directors (Board) on 9 March 2018 and issued for approval at the subsequent annual general meeting on 3 April 2018.

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and additional requirements of the Danish Financial Statements Act. In addition, the consolidated financial statements have been prepared in compliance with the IFRSs issued by the IASB.

The Group's significant accounting policies and accounting policies related to IAS 1 minimum presentation items are described in the relevant notes to the consolidated financial statements or otherwise stated below. A list of the notes is shown on p. 34.

The consolidated financial statements are presented in Danish kroner (DKK), which is ISS Global A/S's functional currency. All amounts have been rounded to nearest DKK million, unless otherwise indicated.

CHANGES IN ACCOUNTING POLICIES

Except for the changes below, the accounting policies have been applied consistently in respect of the financial year and comparative figures. However, based on new information minor adjustments to comparative figures in primary statements and notes have been implemented.

From 1 January 2017, the Group has adopted the below standards and interpretations with no effect on recognition and measurement:

- Amendments to IAS 7 "Statement of Cash Flows": Disclosure Initiative;
- Amendments to IAS 12 "Income Taxes": Recognition of Deferred Tax Assets for Unrealised Losses; and
- Annual improvements to IFRS 2014-2016 Cycle.

The adoption of IAS 7 requires disclosure of changes in liabilities arising from financing activities, see the specification Cash flow from financing activities in 5.2, Loans and borrowings.

PRESENTATION OF THE INCOME STATEMENT

When designing our income statement our aim has been to ensure that line items, headings and subtotals presented are relevant to understand ISS's financial performance.

In the past, ISS has built its business platform, and grown its business, through a large number of acquisitions, which has added a substantial amount of intangibles to the consolidated statement of financial position. Consequently, large amounts of non-cash amortisation/impairment of intangibles are recognised in our consolidated income statement every year.

It is important for us to clearly separate these items to understand the impact of our growth strategy and to enable comparison with our peers. For those reasons, our consolidated income statement is presented in a three-column format, where the line items Goodwill impairment and Amortisation/impairment of brands and customer contracts are presented separately in the column "Acquisition-related" together with the income tax related hereto.

DEFINING MATERIALITY

The consolidated income statement and the consolidated statement of financial position separately present items that are considered individually significant, or are required under the minimum presentation requirements of IAS 1.

In determining whether an item is individually significant ISS considers both quantitative and qualitative factors. If the presentation or disclosure of an item is not decision-useful, the information is considered insignificant.

Explanatory disclosure notes related to the consolidated financial statements are presented for individually significant items. Where separate presentation of a line item is made solely due to the minimum presentation requirements in IAS 1, no further disclosures are provided in respect of that line item.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise ISS Global A/S and entities controlled by ISS Global A/S. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

On consolidation intra group transactions, balances, income and expenses are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The non-controlling interest's share of net profit and equity of subsidiaries, which are not wholly-owned, are included in the Group's net profit and equity, respectively, but disclosed separately. By virtue of agreement certain non-controlling shareholders are only eligible of receiving benefits from their non-controlling interest when ISS as controlling shareholder has received their initial investment and compound interest on such. In such instances the subsidiaries' result and equity are fully allocated to ISS until the point in time where ISS has recognised amounts exceeding their investment including compound interest on such.

Changes in ownership-interest in a subsidiary, without loss of control, are accounted for as equity transactions.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in Other income and expenses, net. Any investment retained is recognised at fair value on initial recognition.

FOREIGN CURRENCY

Transactions in currencies other than the functional currency of the respective Group companies are considered transactions denominated in foreign currencies.

On initial recognition, these are translated to the respective functional currencies of the Group companies at the exchange rates at the transaction date. Foreign exchange adjustments arising between the exchange rates at the transaction date and at the date of payment are recognised in Financial income or Financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the reporting date. The difference between the exchange rates at the reporting date and at the date of transaction or the exchange rate in the latest financial statements is recognised in Financial income or Financial expenses.

On recognition in the consolidated financial statements of Group companies with a functional currency other than DKK, the income statements and statements of cash flows are translated at the exchange rates at the transaction date and the statements of financial position are translated at the exchange rates at the reporting date. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date. Foreign exchange adjustments arising on translation of the opening balance of equity of foreign entities at the exchange rates at the reporting date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the reporting date are recognised in other comprehensive income and presented in equity under a separate translation reserve. However, if the foreign entity is a non-wholly owned subsidiary, the relevant proportion of the translation difference is allocated to the non-controlling interest.

Foreign exchange adjustment of balances with foreign entities which are considered part of the investment in the entity is recognised in other comprehensive income and presented in equity under a separate translation reserve.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management made various judgements, estimates and assumptions concerning future events that affected the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Estimates and assumptions are reviewed on an ongoing basis and have been prepared taking macroeconomic developments into consideration, but still ensuring that one-off effects which are not expected to exist in the long term do not affect estimation and determination of these key factors, including discount rates and expectations of the future.

The following items involve significant accounting estimates and judgements:

Accounting item	Estimates	Judgements	Note
Deferred tax	x		2.5
Acquisitions	x		4.1
Assets and liabilities held for sale	x		4.4
Impairment tests	x		4.8
Pensions and similar obligations	x		6.3
Revenue - gross or net presentation		x	2.1
Significant key account contracts - revenue and costs		x	2.1
Other income and expenses, net		x	2.3

OPERATING PROFIT AND TAX

SECTION 2

2.1 SEGMENT AND REVENUE INFORMATION

ISS is a global facility services company, that operates in 74 countries and delivers a wide range of services within the areas cleaning, property, catering, support, security and facility management.

Operations are generally managed based on a geographical structure in which countries are grouped into regions. The regions have been identified based on a key principle of grouping countries that share market conditions and cultures. However, countries with limited activities which are managed by the Global Corporate Clients organisation are excluded from the geographical segments and combined in a separate segment called "Other countries". An overview of the grouping of countries into regions is presented in 7.10, Group companies.

REPORTABLE SEGMENTS

The segment reporting is prepared in a manner consistent with the Group's internal management and reporting structure. Disclosures relating to the income statement of the segments are presented in this note, whereas segment cash flow, assets and liabilities are disclosed in 7.6, Other segment information together with reconciliation of segment information to the consolidated group amounts. Transactions between reportable segments are made on market terms.

DKK million	Continental Europe	Northern Europe	Asia & Pacific	Americas	Other countries	Total segments
2017						
Revenue ¹⁾	30,944	25,049	14,596	9,313	97	79,999
Depreciation and amortisation ²⁾	(287)	(176)	(126)	(60)	-	(649)
Operating profit before other items	2,006	1,789	1,043	334	0	5,172
Operating margin ³⁾	6.5%	7.1%	7.1%	3.6%	0.3%	6.5%
Other income and expenses, net	(132)	(343)	(8)	(121)	-	(604)
Royalty	(525)	(402)	(219)	(118)	(0)	(1,264)
Goodwill impairment	(22)	(12)	-	-	-	(34)
Amortisation/impairment of brands and customer contracts	(74)	(69)	(46)	(36)	-	(225)
Operating profit	1,253	963	770	59	0	3,045
2016						
Revenue ¹⁾	30,095	26,515	14,606	7,407	104	78,727
Depreciation and amortisation ²⁾	(275)	(201)	(120)	(51)	-	(647)
Operating profit before other items	1,823	1,982	1,098	305	(1)	5,207
Operating margin ³⁾	6.1%	7.5%	7.5%	4.1%	(1.3)%	6.6%
Other income and expenses, net	(99)	(34)	11	(91)	-	(213)
Royalty	(510)	(427)	(213)	(116)	(0)	(1,266)
Goodwill impairment	-	(139)	-	(55)	-	(194)
Amortisation/impairment of brands and customer contracts	(56)	(83)	(39)	(181)	-	(359)
Operating profit	1,158	1,299	857	(138)	(1)	3,175

¹⁾ Including internal revenue which due to the nature of the business is insignificant and is therefore not disclosed.

²⁾ Excluding Goodwill impairment and Amortisation/impairment of brands and customer contracts.

³⁾ Excluding Other income and expenses, net, Royalty, Goodwill impairment and Amortisation/impairment of brands and customer contracts.

2.1 SEGMENT AND REVENUE INFORMATION (CONTINUED)

REVENUE BY COUNTRY – MORE THAN 5% OF GROUP

DKK million

	2017	2016
UK & Ireland	11,232	11,801
USA & Canada	6,551	4,680
Switzerland	5,282	5,251
France	4,742	4,731
Spain & Portugal	4,655	4,635
Denmark (ISS A/S's country of domicile)	3,426	3,500
Other countries ¹⁾	44,063	44,101
Total	79,951	78,699

¹⁾ Including unallocated items and eliminations.

REVENUE BY SERVICE

DKK million

		2017		2016
Cleaning	49%	38,783	50%	39,226
Property	20%	16,027	20%	15,539
Catering	14%	11,013	13%	9,885
Security	7%	5,469	7%	5,809
Support	7%	5,884	7%	5,714
Facility management	3%	2,775	3%	2,526
Total	100%	79,951	100%	78,699

SIGNIFICANT ACCOUNTING JUDGEMENTS

Gross or net presentation of revenue In some instances, ISS does not self-deliver all services under a contract, either because the service is outside our selected strategic services or because we do not have the capabilities ourselves. In those cases, ISS delivers services through selected partners or subcontractors. The issue is whether revenue should be presented gross, i.e. based on the gross amount billed to the customer (ISS is the principal) or based on the net amount retained (the amount billed to the customer less the amount paid to the subcontractor) because ISS has only earned a commission fee (ISS is the agent).

Management considers whether ISS is acting in the capacity of an agent or a principal. This is based on an evaluation of the risks and responsibilities borne by ISS, including responsibility for delivery of services and credit risk. Judgement is required when evaluating all relevant facts and circumstances.

Accounting for **significant key account contracts** with complex revenue and cost structures requires management's judgement in terms of recognition of the individual items of revenue and costs, including recognition in the correct periods over the term of the contract.

ACCOUNTING POLICY

Revenue from rendering services is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. Revenue is recognised when the recovery of the consideration is probable and when the amount of revenue, the stage of completion, the costs incurred for the transaction, and the costs to complete the transaction can be measured reliably. The stage of completion of a contract is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Revenue is measured at fair value of the consideration received less VAT and duties as well as price and quantity discounts.

Royalty comprises royalty and management fee invoiced by ISS World Services A/S (the parent company) for services provided.

The accounting policies of the **reportable segments** are the same as the Group's accounting policies described throughout the notes. Segment revenue, costs, assets and liabilities comprise items that can be directly referred to the individual segments. Unallocated items mainly consist of revenue, costs, assets and liabilities relating to the Group's Corporate functions (including internal and external loans and borrowings, cash and cash equivalents and intra-group balances) as well as Financial income, Financial expenses and Income taxes.

For the purpose of segment reporting, segment profit has been identified as Operating profit. Segment assets and segment liabilities have been identified as Total assets and Total liabilities, respectively.

When presenting geographical information, segment revenue and non-current assets are based on the geographical location of the individual subsidiary from which the sales transaction originates.

2.2 TRANSLATION AND OPERATIONAL CURRENCY RISK

The Group is exposed to a low level of currency risk on transaction level, since the services are produced, delivered and invoiced in the same local currency as the functional currency in the entity delivering the services with minimal exposure from imported components. The Group is, however, exposed to risk in relation to translation into DKK of income statements and net assets of foreign subsidiaries, including intercompany items such as loans, royalties, management fees and interest payments between entities with different functional currencies, since a significant portion of the Group's revenue and operating profit is generated in foreign entities.

IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS

In 2017, the currencies in which the Group's revenue was denominated decreased with a weighted average of 2.0% (2016: decreased with 3.3%) relative to DKK, decreasing the Group's revenue by DKK 1,523 million (2016: a decrease of DKK 2,388 million). Currency movements decreased the Group's operating profit before other items by DKK 123 million (2016: a decrease of DKK 167 million). The effect of the translation of net assets in foreign subsidiaries decreased other comprehensive income by DKK 659 million (2016: a decrease of DKK 475 million).

Development in exchange rates between DKK and the functional currencies had a negative impact on operating profit in all regions. Northern Europe experienced the sharpest decline of 3.1% due to the continued depreciation of GBP. At Group level the impact was limited to 2.0% as Continental Europe and Asia & Pacific declined only 1.9% and 1.0%, respectively.

SENSITIVITY ANALYSIS

It is estimated that a change in foreign exchange rates of the Group's main currencies would have impacted revenue, operating profit before other items and other comprehensive income by the amounts shown below. The analysis is based on foreign exchange rate variances that the Group considered to be reasonably possible at the reporting date. It is assumed that all other variables, in particular interest rates, remain constant and any impact of forecasted sales and purchases is ignored.

DKK million	Change in foreign ex- change rates	Revenue	Operating profit before other items	Royalty	Net assets in foreign subsidiaries
2017					
GBP	10%	1,057	80	(18)	226
CHF	10%	528	50	(9)	102
USD	10%	639	14	(8)	222
NOK	10%	395	31	(6)	(49)
AUD	10%	345	18	(6)	107
SEK	10%	323	12	(5)	124
TRY	10%	270	19	(5)	52
EUR	1%	238	15	(4)	78
Other	10%	1,720	107	(29)	451
Total	-	5,515	346	(90)	1,313

FUNCTIONAL CURRENCY	Change in average FX rate 2016 to 2017	Change in average FX rate 2015 to 2016
GBP	(6.8)%	(11.5)%
CHF	(2.0)%	(2.3)%
AUD	1.0 %	(0.9)%
USD	(2.0)%	0.1 %
NOK	(0.5)%	(3.9)%
EUR	(0.1)%	(0.2)%
TRY	(18.8)%	(9.9)%
SEK	(2.0)%	(1.4)%

2.3 OTHER INCOME AND EXPENSES, NET

DKK million	2017	2016
Gain on divestments	97	57
Adjustments to prior years' acquisitions	17	-
Other ¹⁾	4	-
Other income	118	57
Loss on divestments	(359)	(101)
Restructuring projects ¹⁾	(284)	(131)
Acquisition and integration costs ¹⁾	(64)	(12)
Adjustments to prior years' acquisitions	(17)	-
Other ¹⁾	-	(26)
Other expenses	(724)	(270)
Other income and expenses, net	(606)	(213)

¹⁾ Presented as Other expenses paid in the statement of cash flows when paid.

Gain on divestments mainly related to the divestment of the Group's activities in Iceland, the real estate administration activities in Sweden and the archiving activities in Finland. In 2016, the gain mainly related to the divestment of the security activities in Finland.

Adjustments to prior years' acquisitions (income) related to final settlement of contingent consideration related to the acquisition of GS Hall in 2015.

Loss on divestments mainly comprised the remeasurement of the landscaping activities in the UK, which are classified as held for sale. In 2016, the loss mainly comprised adjustments to prior years' divestments, most significantly the landscaping business in France, the route-based special cleaning services in the Netherlands and the security activities in Greece. Furthermore, remeasurement of the landscaping activities in the UK, which are classified as held for sale and the divestment of the Group's activities in Greenland resulted in additional losses.

Restructuring projects mainly related to the continued implementation of GREAT across the Group, restructuring in Sweden due to operational challenges and adjustments of the business platform in Brazil. The costs primarily comprised redundancy payments, termination of leaseholds, relocation costs and contract termination costs and related labour claim costs in Brazil. In 2017, costs mainly related to Belgium, Brazil, Denmark, France, India, Israel, the Netherlands, Norway, Sweden and the USA. In 2016, costs mainly related to Belgium, Brazil, China, Denmark, the Netherlands, Spain & Portugal and the USA.

Acquisition and integration costs mainly related to Guckenheim in the USA, Apunto in Chile and Evantec in Germany and mainly comprised fees to advisors and costs incurred as a consequence of integration of the businesses. In 2016, costs mainly related to Apunto in Chile and GS Hall in the UK.

Adjustments to prior years' acquisitions (expenses) related to the acquisition of Apunto in Chile in 2016, where good performance resulted in additional payment of contingent consideration.

2.3 OTHER INCOME AND EXPENSES, NET (CONTINUED)

CASH FLOW EFFECT FROM OTHER EXPENSES

DKK million

	2017	2016
Restructuring projects	(260)	(139)
Acquisition and integration costs	(61)	(13)
Restructuring projects (presented as discontinued operations)	(40)	(7)
Other	(31)	(22)
Other expenses paid	(392)	(181)

Restructuring projects mainly comprised payments related to projects initiated and expensed in 2016 and 2017 in Belgium, Brazil, Denmark, France, India, Israel, the Netherlands, Norway, Sweden and the USA. In 2017, payments were slightly lower than the amount expensed mainly due to France and Sweden, where part of the costs have not yet been paid.

Restructuring projects (presented as discontinued operations) related to payments in Argentina regarding contract exits.

SIGNIFICANT ACCOUNTING JUDGEMENTS

Other income and expenses, net consists of significant recurring and non-recurring income and expenses that management does not consider to be part of the Group's ordinary operations, primarily major restructuring projects and gains and losses on divestments. Classification as other expenses is subject to management's review and approval.

Restructuring projects include cost reductions to make ISS more efficient going forward. The types of costs qualifying for treatment as restructuring are costs that are considered of no value to the continuing business and that do not form part of the ordinary operations. Whether a restructuring project qualifies for classification as other expenses is evaluated by management from case to case based on a formalised restructuring request. The request includes a detailed project description and cost type specification.

2.4 INCOME TAXES

OUR APPROACH TO TAX AND TAX RISKS

We are committed to comply with applicable rules and regulations in the countries where we operate. We also have an obligation to optimise the return for our shareholders by managing and planning tax payments effectively within the framework of relevant tax regulation. As a good corporate citizen, we will pay applicable taxes, and at the same time ensure a competitive effective tax rate. This means that we will pursue a competitive effective tax rate within the limits of the tax legislation and strive to limit double taxation to the extent possible.

We do not tolerate avoidance of taxes, social charges or payroll taxes. For the benefit of society, our employees and our customers, we support governmental and industry specific initiatives that introduce tighter controls and sanctions to ensure that companies in our industry play by the rules.

Cross-border and intercompany transactions mainly comprise royalty payments, management fees and financing. Such transactions are conducted based on arm's length principles and in accordance with current OECD principles in setting internal transfer prices.

ISS Tax Policy, see <http://inv.issworld.com/policies.cfm>

DKK million	2017	2016
Current tax	600	745
Deferred tax	171	138
Adjustments relating to prior years, net	33	21
Income taxes (adjusted)	804	904
Income taxes (acquisition-related)	(143)	(129)
Income taxes (reported)	661	775

EFFECTIVE TAX RATE

In %	2017	2016
Statutory income tax rate in Denmark	22.0 %	22.0 %
Foreign tax rate differential, net	0.9 %	1.2 %
Total	22.9 %	23.2 %
Non-tax deductible expenses less non-taxable income	2.2 %	1.1 %
Non-taxable income on divestments	(0.8)%	(0.5)%
Adjustments relating to prior years, net	1.2 %	0.6 %
Change in valuation of net tax assets	(1.9)%	1.4 %
Effect of changes in tax rates	3.7 %	0.3 %
Other taxes	2.9 %	2.5 %
Effective tax rate (profit before tax (adjusted))	30.2 %	28.6 %

Non-tax deductible expenses less non-taxable income comprised various income and expenses, including the impact from interest limitation tax rules and the French tax credit CICE.

Non-taxable income on divestments related to gains on divestments in Sweden and Finland. In 2016, non-taxable income on divestments related to gains on divestments in Finland and Turkey.

Change in valuation of net tax assets mainly related to release of valuation allowances on tax losses in Germany following a reassessment of expected future taxable income.

Effect of changes in tax rates mainly comprised revaluation of the deferred tax asset in the USA following the US tax reform reducing the corporate tax rate from 35% to 21% from 2018.

Other taxes mainly comprised withholding tax and the French Cotisation sur La Valeur Ajoutée des Entreprises (CVAE).

2.5 DEFERRED TAX

DEVELOPMENT IN DEFERRED TAX

DKK million

	2017	2016
Deferred tax liabilities, net at 1 January	(67)	(63)
Adjustments relating to prior years, net	(14)	3
Foreign exchange adjustments	32	(7)
Acquisitions and divestments, net	50	(3)
Tax on other comprehensive income	53	(22)
Reclassification to Assets/(Liabilities) held for sale	(28)	16
Tax on profit before tax (adjusted)	171	138
Tax effect of amortisation/impairment of brands and customer contracts	(143)	(129)
Deferred tax liabilities/(assets), net at 31 December	54	(67)

Adjustments relating to prior years, net in 2017 and 2016 were mainly related to adjustment of tax deductions (temporary differences) in the final tax returns for 2016 and 2015, respectively.

Acquisitions and divestments, net mainly related to the acquisition of Guckenheimer, resulting in recognition of a net deferred tax liability mainly relating to the acquired customer contracts and the Guckenheimer brand.

Tax on other comprehensive income in 2017 primarily comprised deferred tax on actuarial gains on pensions in Switzerland.

DEFERRED TAX SPECIFICATION

DKK million

	Deferred tax assets		Deferred tax liabilities	
	2017	2016	2017	2016
Tax losses carried forward	393	431	-	-
Goodwill	6	8	366	421
Brands	-	-	11	-
Customer contracts	17	29	154	139
Property, plant and equipment	82	62	68	92
Provisions and other liabilities	347	340	512	449
Pensions	212	298	-	-
Set-off within legal tax units and jurisdictions	(357)	(307)	(357)	(307)
Deferred tax	700	861	754	794

UNRECOGNISED DEFERRED TAX ASSETS

At 31 December 2017, the Group had unrecognised deferred tax assets which comprised tax losses carried forward and other deductible temporary differences of DKK 954 million (2016: DKK 1,008 million) primarily relating to France, Germany, Brazil and Israel. The decrease compared to 2016, was mainly due to recognition of part of the unrecognised asset in Germany following a reassessment of expected future taxable income.

Unrecognised tax losses can be carried forward indefinitely in the individual countries. Deferred tax assets have not been recognised in respect of the above tax losses as it is not deemed probable that future taxable profit will be available in the foreseeable future against which the Group can utilise these.

2.5 DEFERRED TAX (CONTINUED)

SIGNIFICANT ACCOUNTING ESTIMATES

Deferred tax assets relating to tax losses carried forward are recognised, when management assesses that these can be offset against positive taxable income in the foreseeable future. The assessment is made at the reporting date taking into account the impact from limitation in interest deductibility and restrictions in utilisation of tax losses in local tax legislation. The assessment of future taxable income is based on financial budgets approved by management as well as management's expectations regarding the operational development, primarily in terms of organic growth and operating margin in the following five years. Furthermore, planned adjustments to capital structure in each country are taken into consideration.

Uncertain tax positions As part of operating a global business, disputes with tax authorities around the world may occur. The possible outcome of such disputes are measured based on management's best estimate (more likely than not) of the amount required to settle the obligation and recognised in deferred tax. Management believes that the provisions made for such disputes are adequate. However, the actual obligations may deviate, as they depend on the result of litigations and settlements with the relevant tax authorities.

ACCOUNTING POLICY

Income tax comprises current tax and changes in deferred tax, including changes due to a change in the tax rate, and is recognised in the income statement or other comprehensive income. Income tax effect of amortisation/impairment of brands and customer contracts is presented in a separate column in connection with these items.

Tax receivables and payables are recognised in the statement of financial position as tax computed on the taxable income for the year, adjusted for tax on the taxable income for prior years and for tax paid on account.

Deferred tax comprises temporary differences between the accounting and tax values of assets and liabilities and is measured in accordance with the liability method. Deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and other items where temporary differences, apart from in business combinations, arose at the time of acquisition without affecting either Net profit or taxable income. Where alternative taxation rules can be applied to determine the tax base, deferred tax is measured according to management's intended use of the asset or settlement of the liability. Deferred tax is measured according to the taxation rules and tax rates in the respective countries applicable at the reporting date when the deferred tax becomes current tax.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in non-current assets at the expected value of their utilisation: either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and liabilities are offset if the Group has a legal right to offset these, intends to settle these on a net basis or to realise the assets and settle the liabilities, simultaneously.

WORKING CAPITAL AND CASH FLOW

SECTION 3

3.1 TRADE RECEIVABLES AND CREDIT RISK

EXPOSURE TO CREDIT RISK

In general, we assess the Group's overall exposure to credit risk as low. The Group's customer portfolio is diversified in terms of geography, industry sector and customer size. The Group is not exposed to credit risk related to significant individual customers. In some geographies, mainly southern Europe and Latin America, in recent years the general credit risk has increased for certain specific groups of customers. However, amounts written off as uncollectible have remained at a relatively low level, which was also the case in 2017, where amounts written off were 0.3% of gross trade receivables (2016: 0.3%).

Exposure to credit risk on trade receivables is managed locally in the operating entities and credit limits are set as deemed appropriate for the customer taking into account the customer's financial position and the current market conditions. Generally, the Group does not hold collateral as security for trade receivables.

The maximum credit risk exposure at the reporting date by reportable segments was:

DKK million	2017			2016		
	Gross	Impairment	Carrying amount	Gross	Impairment	Carrying amount
Continental Europe	4,999	(132)	4,867	4,833	(128)	4,705
Northern Europe	3,220	(23)	3,197	3,311	(32)	3,279
Asia & Pacific	2,245	(54)	2,191	2,151	(37)	2,114
Americas	1,358	(38)	1,320	1,245	(43)	1,202
Other countries	9	(1)	8	8	(1)	7
Total	11,831	(248)	11,583	11,548	(241)	11,307

IMPAIRMENT LOSSES

DKK million	2017			2016		
	Gross	Impairment	Carrying amount	Gross	Impairment	Carrying amount
Not past due	9,387	-	9,387	9,130	-	9,130
Past due 1 to 60 days	1,627	(6)	1,621	1,690	(2)	1,688
Past due 61 to 180 days	363	(6)	357	358	(14)	344
Past due 181 to 360 days	151	(21)	130	114	(28)	86
More than 360 days	303	(215)	88	256	(197)	59
Total	11,831	(248)	11,583	11,548	(241)	11,307

DKK million	2017	2016
Impairment losses at 1 January	(241)	(258)
Acquisitions	(7)	(2)
Divestments	1	0
Impairment losses recognised	(41)	(71)
Impairment losses reversed	19	44
Amounts written off	30	32
Reclassification to/(from) Assets held for sale	(9)	14
Impairment losses at 31 December	(248)	(241)

3.1 TRADE RECEIVABLES AND CREDIT RISK (CONTINUED)

ACCOUNTING POLICY

Trade receivables are recognised initially at fair value and subsequently at amortised cost, less impairment losses.

Impairment losses are recognised when objective evidence indicates that an individual receivable or a portfolio of receivables with similar risk characteristics is impaired. This is based on an individual review for impairment due to customer insolvency, past due amounts and mathematically computed impairment losses based on classification of debtors, maturity and historical information.

Impairment losses, both individual and collective, are recognised in a separate account unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off directly against the receivable.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

3.2 OTHER RECEIVABLES

DKK million	2017	2016
Prepayments	991	949
Currency swaps	3	30
Other	898	943
Other receivables	1,892	1,922

Prepayments comprise mainly prepayments to suppliers and sign-on fees related to customer contracts.

Other comprise various receivables such as supplier rebates and bonuses, refunds from customers and other recoverable amounts, receivable sales price from divestments, contract work in progress, outlay for customers, VAT, etc.

ACCOUNTING POLICY

Other receivables are recognised initially at cost and subsequently at amortised cost. Prepayments are measured at cost. Costs relating to sales work and securing contracts are recognised in the income statement as incurred.

3.3 OTHER LIABILITIES

DKK million	2017	2016
Accrued wages, pensions and holiday allowances	4,301	4,332
Tax withholdings, VAT etc.	2,790	2,726
Debt to companies within the ISS Group	1,298	1,289
Prepayments from customers	515	434
Other	3,402	3,535
Other liabilities	12,306	12,316

Other comprise accrued supplier expenses, utilities such as rent, telephone, electricity etc., contingent consideration and deferred payments, accrued interests, fees to advisors and auditors, customer discounts and insurance, etc.

3.4 CHANGES IN WORKING CAPITAL

DKK million	2017	2016
Changes in inventories	1	(4)
Changes in receivables	(609)	(1,092)
Changes in payables	690	967
Changes in working capital	82	(129)

Changes in receivables The reduced negative impact compared to 2016 mainly reflects a normalisation in Norway following last year's delay in invoicing and stronger collections in the USA and Singapore.

Changes in payables The reduced positive impact compared to 2016 is mainly related to a lower level of accrued supplier invoices in the USA in 2017 and timing of supplier payments in Norway and Sweden.

STRATEGIC ACQUISITIONS AND DIVESTMENTS

SECTION 4

4.1 ACQUISITIONS

The Group completed three acquisitions in 2017 (2016: one acquisition):

Company	Country	Service type	Consolidated in the income statement	Interest	Annual revenue (unaudited DKK million)	Number of employees (unaudited)
Evantec	Germany	Technical and building	January	100%	352	800
SIGNAL	Denmark	Workplace management	February	100%	30	30
Guckenhimer	USA	Catering	May	100%	2,300	3,200
Total					2,682	4,030

ACQUISITION IMPACT

DKK million	Guckenhimer	Other	2017	2016
Brands	54	-	54	-
Customer contracts	236	15	251	19
Other non-current assets	79	6	85	2
Trade receivables	238	72	310	25
Other current assets	108	27	135	8
Pensions, deferred tax liabilities and other provisions	(157)	(49)	(206)	-
Loans and borrowings	(19)	-	(19)	(0)
Other non-current liabilities	(8)	-	(8)	(5)
Other current liabilities	(227)	(68)	(295)	(30)
Fair value of net assets acquired	304	3	307	19
Goodwill	1,217	256	1,473	43
Consideration transferred	1,521	259	1,780	62
Cash and cash equivalents in acquired businesses	-	(20)	(20)	(5)
Cash consideration transferred	1,521	239	1,760	57
Contingent and deferred consideration	-	(42)	(42)	17
Changes in prepaid purchase price	-	(68)	(68)	81
Acquisition of businesses (cash flow)	1,521	129	1,650	155

Guckenhimer On 28 April 2017, ISS acquired 100% of the shares in Guckenhimer Enterprises, Inc., a leading US catering services company with an estimated annual revenue of approximately DKK 2,300 million and 3,200 employees in 33 states. The purchase price (on a debt and cash free basis) amounted to DKK 1,521 million as specified above. Based on provisionally determined fair values of net assets, goodwill amounted to DKK 1,217 million. Goodwill is not expected to be deductible for income tax purposes.

The acquisition supports our strategic aim of strengthening our catering capabilities in North America. Thus, goodwill added on acquisition is attributable mainly to 1) catering expertise, 2) synergies mainly by enhancing self-delivery possibilities, 3) platform for growth primarily within IFS, and 4) assembled work force.

In 2017, Guckenhimer contributed revenue of DKK 1,622 million and operating profit before other items of DKK 61 million.

Acquisition-related costs of DKK 14 million have been included in Other income and expenses, net.

4.1 ACQUISITIONS (CONTINUED)

ACQUISITIONS SUBSEQUENT TO 31 DECEMBER 2017

The Group completed no acquisitions from 1 January to 28 February 2018.

SIGNIFICANT ACCOUNTING ESTIMATES

The most significant assets acquired generally comprise goodwill, customer contracts and trade receivables. As no active market exists for the majority of acquired assets, liabilities and contingent liabilities, in particular in respect of intangible assets, management estimates the fair value. Measurement is based on the present value of future cash flows calculated based on after-tax royalty payments, churn rates or other expected cash flows related to the specific asset. Estimates of fair value are associated with uncertainty and may be adjusted subsequently.

The fair value of customer contracts acquired is based on an evaluation of the conditions relating to the customer contract portfolio and related customer relationships. Measurement is based on a discounted cash flow model based on key assumptions about the estimated split of the acquired revenue in business segments and the related churn rates and profitability of the revenue at the time of the acquisition. Further, management estimates the Weighted Average Cost of Capital (WACC) and a risk premium for the assumed risk inherent in customer contracts.

ACCOUNTING POLICY

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in Other income and expenses, net.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date.

If uncertainties exist at the acquisition date regarding identification or measurement of identifiable assets, liabilities and contingent liabilities or regarding the consideration transferred, initial recognition will take place on the basis of provisionally determined fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have a different fair value at the acquisition date from that first assumed, goodwill is adjusted up until 12 months after the acquisition date and comparative figures are restated accordingly. Thereafter no adjustments are made to goodwill, and changes in estimates of contingent consideration relating to business combinations are recognised in Other income and expenses, net.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all assets acquired and all liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the gain is recognised in the income statement.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Written put options held by non-controlling shareholders are accounted for in accordance with the anticipated acquisition method, i.e. as if the put option has been exercised already. Such options are recognised as Other liabilities initially at fair value. Fair value is measured at the present value of the exercise price of the option.

Subsequent fair value adjustments of put options held by non-controlling interests relating to business combinations effected on or after 1 January 2010 are recognised directly in equity. Subsequent fair value adjustments of put options held by non-controlling interests related to business combinations effected prior to 1 January 2010 are recognised in goodwill. The effect of unwind of discount is recognised in Financial expenses.

4.2 DIVESTMENTS

The Group completed eight divestments in 2017 (2016: five divestments):

Company/activity	Country	Service type	Excluded from the income statement	Interest	Annual revenue (unaudited DKK million)	Number of employees (unaudited)
ISS Kloak- & Industriservice	Denmark	Sewage and industrial	January	100%	209	159
Security	Ireland	Security	March	Activities	43	263
Hotel services Iberia	Spain	Support	April	Activities	43	24
ISS Iceland	Iceland	Country exit	May	100%	194	743
Real estate administration	Sweden	Support	July	100%	66	75
Route-based cleaning	Netherlands	Cleaning	November	Activities	111	668
Engineering consulting	Finland	Support	January 2018	100%	100	130
Archiving services	Finland	Support	January 2018	Activities	16	24
Total					782	2,086

DIVESTMENT IMPACT

DKK million	2017	2016
Goodwill	142	154
Customer contracts	5	7
Other non-current assets	111	74
Current assets	110	94
Loans and borrowings	-	(4)
Other non-current liabilities	(16)	(8)
Other current liabilities	(71)	(121)
Net assets disposed	281	196
Gain/(loss) on divestment of businesses, net	89	(23)
Divestment costs	118	80
Consideration received	488	253
Cash and cash equivalents in divested businesses	(21)	(4)
Cash consideration received	467	249
Contingent and deferred consideration	(111)	49
Divestment costs paid	(127)	(111)
Divestment of businesses (cash flow)	229	187

DIVESTMENTS SUBSEQUENT TO 31 DECEMBER 2017

On 1 January 2018, we completed the divestment of the Belgian kitchen maintenance activities, a part of ISS Belgium's industrial cleaning business, with an annual revenue of approximately DKK 27 million (unaudited) and 54 employees.

On 27 January 2018, we completed the divestment of our activities in Greece with an annual revenue of approximately DKK 259 million and 1,705 employees.

On 31 January 2018, we completed the divestment of ISS Profi Komfort, a cleaning company providing cleaning services to public hospitals in Hungary with an annual revenue of approximately DKK 45 million (unaudited) and 700 employees.

The Group completed no further divestments from 1 January to 28 February 2018.

ACCOUNTING POLICY

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

4.3 PRO FORMA REVENUE AND OPERATING PROFIT BEFORE OTHER ITEMS

Assuming all acquisitions and divestments in the year were included/excluded as of 1 January, the effect on recognised revenue and operating profit before other items is estimated as follows:

DKK million	2017	2016
Revenue	79,951	78,699
Acquisitions	751	95
Divestments	(353)	(624)
Pro forma revenue	80,349	78,170
Operating profit before other items	5,059	5,090
Acquisitions	37	5
Divestments	(36)	(53)
Pro forma operating profit before other items	5,060	5,042

For the purpose of estimating pro forma revenue and operating profit before other items, adjustments relating to acquisitions and divestments are based on estimates made by local ISS management in the respective jurisdictions in which the acquisitions and divestments occurred at the time of acquisition and divestment, or actual results where available. Synergies from acquisitions are not included for periods in which the acquisitions were not controlled by the Group. The estimates are based on unaudited financial information.

These adjustments and the computation of total revenue and operating profit before other items on a pro forma basis are presented for informational purposes only. This information does not represent the results the Group would have achieved had the divestments during the year occurred on 1 January. In addition, the information should not be used as the basis for or prediction of any annualised calculation.

4.4 ASSETS AND LIABILITIES HELD FOR SALE

At 31 December 2016, assets classified as held for sale comprised three businesses in the Continental Europe, Northern Europe (the landscaping activities in the UK) and the Asia & Pacific regions for which sales processes were initiated in previous years. In 2017, the sales process for the business in the Asia & Pacific region was stopped and consequently, it was reclassified as held for use. The impact of the reclassification on the consolidated financial statements was insignificant. At 31 December 2017, sales processes were still ongoing for the other two businesses.

In 2017, remeasurement of the landscaping activities in the UK resulted in an impairment loss of DKK 270 million being recognised in Other income and expenses, net with DKK 314 million and in Income taxes with DKK (44) million.

Additionally in 2017, the continued evaluation of our activities led to sales process initiation for two additional businesses in the Americas region, i.e. Argentina and Uruguay. These activities were classified as held for sale and discontinued operations as of 30 June 2017, see 4.5, Discontinued operations. The reclassification resulted in an impairment loss of DKK 22 million being recognised in Net loss from discontinued operations. Consequently, at 31 December 2017, assets classified as held for sale comprised four businesses in the Continental Europe, Northern Europe (the landscaping activities in the UK) and the Americas regions.

DKK million	2017	2016
Goodwill	814	864
Other non-current assets	126	286
Other current assets	376	475
Assets held for sale	1,316	1,625
Other non-current liabilities	81	101
Other current liabilities	347	325
Liabilities held for sale	428	426

SIGNIFICANT ACCOUNTING ESTIMATES

When classifying non-current assets and disposal groups as held for sale management makes estimates of their fair value (the final sales price and expected costs to sell). Depending on the nature of the non-current assets and disposal group's activity, assets and liabilities, the estimated fair value may be associated with different levels of uncertainty and possibly adjusted subsequently. Measurement of the fair value of disposal groups is categorised as Level 3 in the fair value hierarchy as measurement is not based on observable market data.

Management considers intangible assets relating to the disposal groups, taking into consideration how to separate the net assets (including intangible assets) relating to the disposal group from the Group's assets in the continuing business. Impairment of these intangibles, both on initial classification as held for sale and subsequently, is considered. The estimation uncertainty relating to impairment of intangibles in general is described in 4.8, Impairment tests.

ACCOUNTING POLICY

Assets held for sale comprise non-current assets and disposal groups held for sale. Liabilities held for sale are those directly associated with the assets that will be transferred in the transaction. Assets are classified as held for sale when the carrying amount of the assets is expected to primarily be recovered through a sale within 12 months of the reporting date in accordance with a formal plan rather than through continuing use.

Immediately before classification as held for sale, the assets or disposal groups are remeasured in accordance with the Group's accounting policies. Thereafter, they are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Once classified as held for sale, assets are not amortised or depreciated.

Impairment losses on initial classification as held for sale, and subsequent gains and losses on remeasurement are recognised in the income statement and disclosed in the notes.

Non-current assets and disposal groups held for sale are presented in separate lines in the statement of financial position and the main elements are specified in the notes. Comparative figures are not adjusted.

4.5 DISCONTINUED OPERATIONS

In June 2017, management decided to initiate sales processes for the Group's activities in Argentina and Uruguay, which are operated as a regional cluster. The decision was based on a strategic review of the Group's activities in the Americas region with the conclusion that the two countries were no longer considered as strategic to the Group. Management assessed that the sales processes will be finalised within a year. As a result, the Group's activities in Argentina and Uruguay have been classified as held for sale and discontinued operations.

NET LOSS FROM DISCONTINUED OPERATIONS

DKK million

	2017	2016
Revenue	400	479
Expenses ¹⁾	(402)	(456)
Operating profit before other items	(2)	23
Other income and expenses, net	(49)	(7)
Goodwill impairment	(14)	-
Amortisation/impairment of brands and customer contracts	(2)	(0)
Operating profit	(67)	16
Financial expenses, net	(30)	(21)
Loss before tax	(97)	(5)
Income taxes	(5)	(3)
Net loss from discontinued operations	(102)	(8)

¹⁾ Including depreciation and amortisation of DKK 2 million (2016: DKK 3 million).

CASH FLOW FROM DISCONTINUED OPERATIONS

DKK million

	2017	2016
Cash flow from operating activities	(45)	1
Cash flow from investing activities	(4)	(7)
Cash flow from financing activities	(17)	2

ACCOUNTING POLICY

In the **income statement**, discontinued operations are excluded from the results of continuing operations and presented separately as Net loss from discontinued operations. Comparative figures have been restated.

In the **statement of cash flows**, cash flows from discontinued operations are included in cash flow from operating, investing and financing activities together with cash flows from continuing operations, but specified in this note.

In the **statement of financial position**, assets and liabilities are presented in separate lines and the main elements are specified in note 4.4, Asset and liabilities held for sale. Comparative figures are not restated.

4.6 INTANGIBLE ASSETS

DKK million	Goodwill	Brands	Customer contracts	Software and other intangible assets	Total
2017					
Cost at 1 January	19,656	-	4,304	1,452	25,412
Foreign exchange adjustments	(689)	(3)	(215)	(38)	(945)
Acquisitions	1,473	54	251	26	1,804
Additions	-	-	-	182	182
Divestments	(193)	-	(31)	(83)	(307)
Disposals	-	-	-	(49)	(49)
Reclassification from Assets held for sale	32	-	13	-	45
Cost at 31 December	20,279	51	4,322	1,490	26,142
Amortisation and impairment losses at 1 January	(2,119)	-	(3,569)	(906)	(6,594)
Foreign exchange adjustments	14	-	181	22	217
Amortisation	-	(7)	(217)	(122)	(346)
Impairment losses	(48)	-	(3)	-	(51)
Acquisitions	-	-	-	(22)	(22)
Divestments	51	-	26	19	96
Disposals	-	-	-	44	44
Reclassification (from)/to Assets held for sale	19	-	(13)	-	6
Amortisation and impairment losses at 31 December	(2,083)	(7)	(3,595)	(965)	(6,650)
Carrying amount at 31 December	18,196	44	727	525	19,492
2016					
Cost at 1 January	20,031	-	4,358	1,399	25,788
Foreign exchange adjustments	(243)	-	(46)	(3)	(292)
Acquisitions	43	-	19	0	62
Additions	-	-	-	184	184
Divestments	(102)	-	(6)	(27)	(135)
Disposals	-	-	-	(27)	(27)
Reclassification to Property, plant and equipment	-	-	-	(73)	(73)
Reclassification to Assets held for sale	(73)	-	(21)	(1)	(95)
Cost at 31 December	19,656	-	4,304	1,452	25,412
Amortisation and impairment losses at 1 January	(2,062)	-	(3,250)	(898)	(6,210)
Foreign exchange adjustments	(19)	-	2	2	(15)
Amortisation	-	-	(347)	(114)	(461)
Impairment losses	(194)	-	(12)	-	(206)
Divestments	102	-	6	14	122
Disposals	-	-	-	23	23
Reclassification to Property, plant and equipment	-	-	-	66	66
Reclassification to Assets held for sale	54	-	32	1	87
Amortisation and impairment losses at 31 December	(2,119)	-	(3,569)	(906)	(6,594)
Carrying amount at 31 December	17,537	-	735	546	18,818

Impairment losses on goodwill related to divestments, see 4.7, Goodwill impairment as well as goodwill impairment on discontinued operations. In 2017, impairment losses on customer contracts related to divestment of the security business in Ireland. In 2016, the loss related to divestment of non-core activities in the Czech Republic as well as remeasurement of businesses classified as held for sale.

4.6 INTANGIBLE ASSETS (CONTINUED)

ACCOUNTING POLICY

Goodwill is initially recognised at cost and subsequently at cost less accumulated impairment losses. Goodwill is not amortised. Goodwill is attributable mainly to assembled workforce, technical expertise and technological knowhow.

Acquisition-related **brands** are recognised at fair value at the acquisition date. Subsequently, acquired brands with indefinite useful lives are measured at cost less accumulated impairment losses. Brands with finite useful lives are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful life of the brand, which is usually in the range of 2-5 years.

Acquisition-related **customer contracts** are recognised at fair value at the acquisition date and subsequently at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful life of the acquired portfolio, which is in the range of 11-15 years.

Software and other intangible assets are measured at cost less accumulated amortisation and impairment losses.

The cost of software developed for internal use includes external costs to consultants and software as well as internal direct and indirect costs related to the development. Other development costs for which it cannot be rendered probable that future economic benefits will flow to the Group are recognised in the income statement as and when incurred.

Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets, which are 5-10 years.

Amortisation methods and useful lives are reassessed at each reporting date and adjusted prospectively, if appropriate.

Please refer to 4.8, Impairment tests, for a description of impairment testing of intangible assets.

4.7 GOODWILL IMPAIRMENT

DKK million

	2017	2016
Impairment losses derived from divestment of businesses	34	194
Goodwill impairment	34	194

Impairment losses derived from divestment of businesses related to the divestment of the public hospital cleaning activities in Hungary and the Danish sewage and industrial service business. In 2016, the losses related to the remaining landscaping activities in the USA, the Group's activities in Greenland and the security activities in Ireland as well as remeasurement of businesses classified as held for sale.

4.8 IMPAIRMENT TESTS

DETERMINATION OF CASH-GENERATING UNITS (CGUs)

Impairment tests are generally carried out per country as this represents the lowest level of cash-generating units (CGUs) to which the carrying amount of intangibles, i.e. goodwill and customer contracts, can be allocated and monitored with any reasonable certainty. This level of allocation and monitoring of intangibles should be seen in the light of the Group's strategy to integrate acquired companies as quickly as possible in order to benefit from synergies. Management of certain countries has been combined to take advantage of similarities in terms of markets, shared customers and cost synergies. In such cases, the countries are regarded as one CGU when performing the impairment tests.

ESTIMATES USED TO MEASURE RECOVERABLE AMOUNT

The recoverable amount of each CGU is determined on the basis of its value-in-use. The value-in-use is established using certain key assumptions as described below. The key assumptions are revenue growth, operating margin and discount rates.

Value-in-use cash flow projections are based on financial budgets approved by management covering the following financial year. Revenue growth and operating margin assumptions applied in the short to medium term (forecasting period) are based on management's expectations regarding the growth and operational development considering all relevant factors including past experience and external sources of information where possible and relevant.

When estimating the CGUs' **margin development** in the forecasting period, past experience and the impact from expected efficiency improvements are taken into consideration. Since 2013, we have accelerated our strategy implementation through GREAT, which among other things include customer segmentation, organisational structure, IFS readiness and excellence projects, e.g. our procurement programme and business process outsourcing (BPO). The expected impact of these initiatives are taken into consideration for the relevant CGUs.

Revenue growth projections in the forecasting period for the individual CGUs are estimated on the basis of expected market development including IFS readiness, impact from Global Corporate Clients contracts and the macroeconomic environment in general. Past experience is taken into consideration as well as the expected impact from local and Group initiatives, such as GREAT, where especially initiatives on customer segmentation (including key account focus), organisational structure and IFS readiness are assumed to affect growth opportunities.

Terminal growth rates do not exceed the expected long-term average growth rate including inflation for the country in which the CGU operates.

The country specific **discount rates**, which are calculated net of tax, are generally based on 10-year government bonds of the individual countries. An interest premium is added to adjust for the inconsistency of applying government bonds with a short-term maturity when discounting the estimated future cash flows with infinite maturity.

A **target ratio** of 25/75 (2016: 25/75) between the market value of debt and equity value has been applied in the calculation. As a company based in Europe, the Group assumes the long-term market equity risk premium to be 6.5% (2016: 6.5%).

Uncertainties reflecting past performance and possible variations in the amount or timing of the projected cash flows are generally reflected in the discount rates. Consequently, a country specific risk premium is added to the discount rates to reflect the specific risk associated with each CGU.

SIGNIFICANT ACCOUNTING ESTIMATES

In performing the impairment test management assesses whether the CGU to which the intangibles relate will be able to generate positive net cash flows sufficient to support the value of intangibles and other net assets of the entity.

This assessment is based on estimates of expected future cash flows (value-in-use) made on the basis of financial budgets for the following financial year and estimated discount rates, growth and margin development. The procedure is described in "Estimates used to measure recoverable amount". In recent years, volatility in risk free interest rates has increased, which generally has increased the estimation uncertainty.

4.8 IMPAIRMENT TESTS (CONTINUED)

CARRYING AMOUNTS AND KEY ASSUMPTIONS

The carrying amount of intangibles, i.e. goodwill and customer contracts, and the key assumptions¹⁾ used in the impairment testing as per 31 December are presented below for each CGU representing more than 5% of the carrying amount of the Group's intangibles or considered to be at high risk of impairment.

DKK million	Carrying amount			Forecasting period		Terminal period		Applied discount rate	
	Goodwill	Customer contracts	Total intangibles	Growth (avg.)	Margin (avg.) ²⁾	Growth	Margin ²⁾	Net of tax	Pre-tax
2017									
USA & Canada ³⁾	2,154	212	2,366	5.0%	5.0%	3.0%	5.5%	10.1%	12.8%
UK & Ireland	1,718	221	1,939	0.4%	7.0%	2.5%	7.0%	7.9%	9.1%
France	1,896	-	1,896	2.7%	5.8%	2.5%	6.5%	8.5%	12.9%
Finland	1,635	18	1,653	2.7%	7.7%	2.0%	7.7%	7.8%	9.6%
Australia & New Zealand	1,345	66	1,411	3.2%	5.4%	3.0%	5.4%	9.6%	12.8%
Switzerland	1,124	8	1,132	1.9%	7.7%	2.0%	7.7%	6.4%	7.8%
Spain & Portugal	1,069	50	1,119	2.3%	6.2%	2.5%	6.2%	8.7%	11.2%
Netherlands	995	-	995	2.8%	4.9%	2.0%	5.0%	8.2%	10.8%
Other	6,260	152	6,412	-	-	-	-	-	-
Total	18,196	727	18,923						
2016									
UK & Ireland	1,776	270	2,046	2.8%	7.0%	2.5%	7.0%	8.1%	9.4%
France	1,893	-	1,893	2.3%	5.8%	2.5%	6.4%	9.5%	12.3%
Finland	1,691	35	1,726	1.8%	7.7%	2.0%	7.7%	7.6%	9.2%
Australia & New Zealand	1,416	94	1,510	2.3%	5.9%	3.0%	5.9%	9.8%	13.0%
Switzerland	1,223	14	1,237	1.7%	7.6%	2.0%	7.6%	6.3%	7.6%
USA & Canada	1,147	-	1,147	2.8%	4.9%	3.0%	4.9%	10.0%	14.7%
Spain & Portugal	1,067	74	1,141	2.2%	6.2%	2.5%	6.2%	8.6%	10.8%
Netherlands	994	-	994	2.5%	4.9%	2.0%	5.0%	8.1%	10.3%
Other	6,330	248	6,578	-	-	-	-	-	-
Total	17,537	735	18,272						

¹⁾ The key assumptions applied in the impairment tests are used for accounting purposes and should not be considered a forward-looking statement within the meaning of the US Private Securities Litigation Act of 1995 and similar laws in other countries regarding expectations to the future development.

²⁾ Excluding allocated corporate costs and Royalty.

³⁾ Excluding brands of DKK 44 million.

The Netherlands The assumptions applied for the Netherlands have been prepared based on the general principles described on p. 61. Specifically for the Netherlands, the assumptions are based on management's business plan for improving growth and profit in the course of the forecasting period as laid out in 2015, but updated based on developments in 2016 and 2017. In terms of growth, the major part is assumed to come from new IFS contracts as a result of an improved commercial culture and focus being directed towards key account customers in line with GREAT. First signs of improvements were seen in 2016, with important key account contract wins, and the trend continued in 2017.

Operating margin is assumed in the range 4.7%-5.0% in the forecasting period. The improvement is mainly a result of implementation of GREAT, including the establishment of a customer-focused organisation in line with the GREAT blueprint. Furthermore, divestment of non-core activities and focus on operational excellence on contract level (cost overspend and general contract efficiencies) will contribute positively along with other centralised excellence initiatives.

4.8 IMPAIRMENT TESTS (CONTINUED)

France As noted in previous years, the French tax credit CICE has a significant impact on the margin in France. In December 2017, the French Parliament adopted a change to the scheme. As of 1 January 2019, the CICE will be replaced by a decrease in employer's social contributions with 6% on wages below 2.5 times the French minimum wage, which has been reflected in the value-in-use calculation. The CICE still has a significant, albeit reduced, impact on the margin. However, the risk related to potential changes to the scheme going forward is perceived as reduced.

SENSITIVITY ANALYSIS

A sensitivity analysis on the key assumptions in the impairment testing is presented below. The allowed change represents the percentage points by which the value assigned to the key assumption can change, all other things being equal, before the CGU's recoverable amount equals its carrying amount.

	Forecasting period				Terminal period				Discount rate, net of tax	
	Growth		Margin ¹⁾		Growth		Margin ¹⁾			
	Applied avg. rate	Allowed decrease	Applied avg. rate	Allowed decrease	Applied long-term rate	Allowed decrease	Applied long-term rate	Allowed decrease	Applied rate	Allowed increase
2017										
USA & Canada	5.0%	>5.0%	5.0%	>3.0%	3.0%	>3.0%	5.5%	2.7%	10.1%	>3.0%
UK & Ireland	0.4%	>0.4%	7.0%	>3.0%	2.5%	>2.5%	7.0%	>3.0%	7.9%	>3.0%
France	2.7%	>2.7%	5.8%	>3.0%	2.5%	2.3%	6.5%	1.8%	8.5%	1.8%
Finland	2.7%	>2.7%	7.7%	>3.0%	2.0%	>2.0%	7.7%	>3.0%	7.8%	>3.0%
Australia & New Zealand	3.2%	>3.2%	5.4%	>3.0%	3.0%	>3.0%	5.4%	2.7%	9.6%	>3.0%
Switzerland	1.9%	>1.9%	7.7%	>3.0%	2.0%	>2.0%	7.7%	>3.0%	6.4%	>3.0%
Spain & Portugal	2.3%	>2.3%	6.2%	>3.0%	2.5%	>2.5%	6.2%	>3.0%	8.7%	>3.0%
Netherlands	2.8%	0.7%	4.9%	0.6%	2.0%	0.3%	5.0%	0.2%	8.2%	0.2%
2016										
UK & Ireland	2.8%	>2.8%	7.0%	>3.0%	2.5%	>2.5%	7.0%	>3.0%	8.1%	>3.0%
France	2.3%	>2.3%	5.8%	>3.0%	2.5%	>2.5%	6.4%	2.4%	9.5%	>2.7%
Finland	1.8%	>1.8%	7.7%	>3.0%	2.0%	>2.0%	7.7%	>3.0%	7.6%	>3.0%
Australia & New Zealand	2.3%	>2.3%	5.9%	>3.0%	3.0%	>3.0%	5.9%	2.2%	9.8%	2.7%
Switzerland	1.7%	>1.7%	7.6%	>3.0%	2.0%	>2.0%	7.6%	>3.0%	6.3%	>3.0%
USA & Canada	2.8%	>2.8%	4.9%	>3.0%	3.0%	>3.0%	4.9%	1.6%	10.0%	2.3%
Spain & Portugal	2.2%	>2.2%	6.2%	>3.0%	2.5%	>2.5%	6.2%	2.5%	8.6%	2.8%
Netherlands	2.5%	0.0%	4.9%	0.0%	2.0%	0.0%	5.0%	0.0%	8.1%	0.0%

¹⁾ Excluding allocated corporate costs and Royalty.

ACCOUNTING POLICY

Intangible assets with an indefinite useful life, i.e. goodwill, are subject to impairment testing at least annually or when circumstances indicate that the carrying amount may be impaired. The carrying amount of other non-current assets is tested annually for indications of impairment.

If an indication of impairment exists, the recoverable amount of the asset is determined. The recoverable amount is the higher of the fair value of the asset less anticipated costs of disposal and its value-in-use. The value-in-use is calculated as the present value of expected future cash flows from the asset or the CGU to which the asset belongs.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the CGU to which goodwill is allocated.

An impairment loss is recognised in the income statement in a separate line if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses are only reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

CAPITAL STRUCTURE

SECTION 5

5.1 EQUITY

CAPITAL MANAGEMENT

The ISS Global Group is indirectly wholly owned by ISS A/S and is therefore part of the ISS A/S Group. Group Treasury manages financing activities and capital structure centrally for the ISS A/S Group as a whole. The ISS Global Group's financing activities and capital structure are not assessed independently of the ISS A/S Group.

The Group monitors the capital structure and evaluates the need for adjustments on an ongoing basis. The Group's objectives for managing capital and what is managed as capital are described in note 5.6, Liquidity risk. The dividend policy and payment of dividends is made subject to the necessary consolidation of equity and the Group's continuing expansion and profitability.

ISS Global A/S (the Group's parent) is a holding company, and its primary assets are shares in its subsidiaries, receivables from its subsidiaries and cash in its bank accounts. ISS Global A/S has no revenue generating operations of its own, and therefore ISS Global A/S's cash flow and ability to service its indebtedness, will primarily depend on the operating performance and financial condition of its operating subsidiaries, and the receipt by ISS Global A/S of funds from its subsidiaries.

SHARE CAPITAL

At 31 December 2017, ISS Global's share capital comprised a total of DKK 180,000,000 shares (2016: 180,000,000) with a nominal value of DKK 1 each. All shares were fully paid and freely transferable.

ISS Global has one class of shares, and no shares carry special rights. Each share gives the holder the right to one vote at our general meetings.

DIVIDENDS

In 2017, dividends of DKK 1,200 million (2016: DKK 2,185 million) to ISS World Services A/S, ultimately ISS A/S, were approved at an extraordinary general meeting and paid out in December 2017.

ACCOUNTING POLICY

Retained earnings is the Group's free reserves, which includes share premium. Share premium comprises amounts above the nominal share capital paid by shareholders when shares are issued by ISS Global A/S.

Translation reserve comprises all foreign exchange differences arising from the translation of financial statements of foreign entities with a functional currency other than DKK as well as from the translation of non-current balances which are considered part of the investment in foreign entities.

On full or partial realisation of a foreign entity where control is lost the foreign exchange adjustments are transferred to the income statement in the same line item as the gain or loss.

Dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). Dividends proposed for the year are shown in a separate reserve under Equity. Interim dividends are recognised as a liability at the date when decision to pay the dividend is made.

5.2 LOANS AND BORROWINGS

DKK million	2017	2016
Issued bonds	17,052	12,576
Bank loans	286	2,423
Debt to companies within the ISS Group	6,618	6,265
Finance lease liabilities	166	143
Derivatives	6	-
Total	24,128	21,407
Non-current liabilities	17,164	14,897
Current liabilities	6,964	6,510
Loans and borrowings	24,128	21,407
Cash and cash equivalents and other financial items ¹⁾	(8,452)	(6,544)
Net debt	15,676	14,863

¹⁾ Includes securities of DKK 39 million (2016: DKK 32 million), certain receivables from companies within the ISS Group of DKK 2,190 million (2016: DKK 2,211 million) and positive value of currency swaps of DKK 3 million (2016: DKK 30 million). The average interest rate related to receivables from companies within the ISS Group was 1.50% (2016: 0.26%)

CASH FLOW FROM FINANCING ACTIVITIES

DKK million	2017	2016
Loans and borrowings at 1 January	21,407	21,641
Foreign exchange adjustments	(22)	(78)
Proceeds from bonds	4,439	-
Repayment of senior facilities	(2,230)	-
Other financial payments, net	223	(841)
Proceeds from debt to companies within the ISS Group	353	297
Additions to finance lease liabilities (non-cash)	92	70
Other non-cash movements	(134)	318
Loans and borrowings at 31 December	24,128	21,407

REFINANCING

In August 2017, ISS Global A/S issued a 10-year EUR bond for a principal amount of EUR 600 million maturing in August 2027. The notes were issued under the company's EUR 3 billion EMTN programme. The net proceeds of the offering were used for repayment of the EUR 300 million Term Loan B and for general corporate purposes.

In November 2017, we also entered into a new senior unsecured Revolving Credit Facility of EUR 1,000 million with a group of 15 banks. The facility matures in November 2022 and replaces the EUR 850 million Revolving Credit Facility maturing in February 2019. The new Revolving Credit Facility is not subject to financial covenants and the drawn margin is determined semi-annually based on a leverage grid.

FAIR VALUE

The fair value of loans and borrowings was DKK 24,658 million (2016: DKK 22,020 million). The fair value of bonds is based on the quoted market price on the Luxembourg Stock Exchange and measurement is categorised as Level 1 in the fair value hierarchy. For the remaining loans and borrowings fair value is equal to the nominal value as illustrated in 5.5, Interest rate risk.

FINANCING FEES

In 2017, financing fees amounting to DKK 51 million (2016: DKK 2 million) have been recognised in loans and borrowings while financing fees of DKK 59 million (2016: DKK 34 million) have been amortised and recognised in financial expenses. Accumulated financing fees recognised in loans and borrowings on 31 December 2017 amounted to DKK 97 million (2016: DKK 105 million).

5.2 LOANS AND BORROWINGS (CONTINUED)

ACCOUNTING POLICY

Financial liabilities are recognised at the date of borrowing at fair value less related transaction costs paid. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. Any difference between the proceeds initially received and the nominal value is recognised in Financial expenses over the term of the loan. Financial liabilities also include the capitalised residual obligations on finance leases, which are measured at amortised cost.

5.3 FINANCIAL INCOME AND EXPENSES

DKK million	2017	2016
Interest income on cash and cash equivalents	38	44
Interest income from companies within the ISS Group	28	27
Foreign exchange gains	-	9
Financial income	66	80
Interest expenses on loans and borrowings	(419)	(389)
Interest expenses to companies within the ISS Group	(28)	(13)
Bank fees	(62)	(60)
Amortisation of financing fees	(32)	(34)
Refinancing	(27)	-
Net interest on defined benefit obligations	(22)	(35)
Foreign exchange losses	(5)	-
Financial expenses	(595)	(531)

Interest expenses on loans and borrowings The increase in interest expenses in 2017 was mainly a result of higher average net debt due to the acquisition of Guckenheim and higher cost of debt due to the issuance of bonds under the EMTN programme in August 2017.

Refinancing In connection with the repayment of Term Loan B (EUR 300 million) in August 2017 and refinancing of the Revolving Credit Facility in November 2017, unamortised financing fees of DKK 27 million were expensed.

Foreign exchange gains and losses mainly related to exchange rate movements on intercompany loans from the parent company to foreign subsidiaries as well as on external loans and borrowings denominated in currencies other than DKK. In addition, fair value adjustments of currency swaps were included.

5.4 FINANCIAL RISK MANAGEMENT

The Group is exposed to a number of financial risks arising from its operating and financing activities, mainly interest rate risk, liquidity risk, currency risk and credit risk. These financial risks are managed centrally by Group Treasury based on the Financial Policy, which is reviewed and approved annually by the Board of Directors of ISS A/S. Within the framework of the Financial Policy it is considered on an ongoing basis if the financial risk management approach appropriately addresses the exposures.

It is the Group's policy to mitigate risk exposure derived from its business activities. Group policy does not allow taking speculative positions in the financial markets.

The areas exposed to financial risks are mainly loans and borrowings and financial income and expenses. The Group's objectives, policies and processes for measuring and managing the risk exposure related to these items are summarised in the table below and further explained in:

- 5.5 Interest rate risk;
- 5.6 Liquidity risk; and
- 5.7 Currency risk.

Credit risk on trade receivables and currency risk (operational) are described in:

- 3.1 Trade receivables and credit risk; and
- 2.2 Translation and operational currency risk.

The Group has not identified additional financial risk exposures in 2017 compared to 2016.

5.4 FINANCIAL RISK MANAGEMENT (CONTINUED)

FINANCIAL RISK	EXPOSURE	RISK MANAGEMENT POLICY	MITIGATION
Interest rate risk (5.5)	Low risk • 98% of the Group's external bank loans and bonds carried fixed interest rates at 31 December 2017 (2016: 84%) • Duration of gross external debt (fixed-rate period) of 5.1 years at 31 December 2017 (2016: 3.9 years) • Exposure primarily related to EUR denominated bank loans with floating rates	• At least 50% of the Group's bank loans and issued bonds must carry fixed interest rates directly or through derivatives • Duration of gross debt (fixed-rate period) shall be 2-6 years	• The balance between fixed and variable interest rates and gross debt duration (fixed-rate period) is measured on a monthly basis to ensure compliance
Liquidity risk (5.6)	Low risk • Diversified funding through bank loans and bonds • No short-term maturities at 31 December 2017	• Maintain an appropriate level of short- and long-term liquidity reserves (liquid funds and committed credit facilities) • Maintain a smooth maturity profile in terms of different maturities • Maintain access to diversified funding sources	• Raising capital is managed centrally in Group Treasury to ensure efficient liquidity management • Liquidity is transferred to/from ISS Global A/S, which operates as the internal bank of the Group • For day-to-day liquidity management cash pools have been established in the majority of the local entities
Currency risk (5.7)	Low risk • 98.1% of the Group's loans and borrowings were denominated in EUR or DKK at 31 December 2017 (2016: 98.6%) • Exposure relates to intercompany loans from the parent company to foreign subsidiaries and intercompany balances as these are typically denominated in the functional currency of the subsidiary	• All hedging is conducted at Group level • Main policy is to hedge foreign exchange exposures towards EUR or DKK exceeding DKK 5 million. However, some currencies cannot be hedged within a reasonable price range, e.g. ARS, in which case correlation to a proxy currency is considered and, if deemed appropriate, proxy hedging is applied • Exposure to EUR is monitored but not hedged due to the fixed exchange rate policy between DKK/EUR • Exposure related to translation of net assets to DKK in foreign investments is currently not hedged	• Use of currency swaps to hedge the exposure to currency risk on loans and borrowings (external) and intercompany balances • Exposure on loans and borrowings, intercompany balances and cash and cash equivalents are measured at least on a weekly basis to evaluate the need for hedging currency positions
Credit risk	Low risk • Exposure on cash and cash equivalents and securities was DKK 6,262 million (2016: DKK 4,334 million)	• Main policy is to transact only with financial institutions with at least A-1/P-1 credit ratings	• Group Treasury monitors credit ratings on an ongoing basis and approves exceptions to credit rating requirements

5.5 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments, currently bank loans and issued bonds. The Group's exposure towards interest rates is illustrated below, where a breakdown of the Group's loans and borrowings in floating and fixed rates is provided. Currently, the Group does not use interest rate swaps.

For a description of exposure, policy and mitigation, see the overview in 5.4, Financial risk management.

DKK million	Nominal interest rate	Currency	Year of maturity	Nominal value	2017	2016
					Carrying amount	Carrying amount
Issued bonds (fixed interest rate)						
EMTNs (EUR 700 million)	1.125%	EUR	2020	5,211	5,197	5,183
EMTNs (EUR 500 million)	1.125%	EUR	2021	3,722	3,708	3,697
EMTNs (EUR 500 million)	2.125%	EUR	2024	3,722	3,703	3,696
EMTNs (EUR 600 million)	1.500%	EUR	2027	4,467	4,444	-
				17,122	17,052	12,576
Bank loans (floating interest rate)						
Senior Unsecured Facilities:						
Term Facility B (EUR 300 million)	Euribor + 0.85%	EUR	2019	-	-	2,220
Revolving Credit Facility (EUR 850 million)	Libor + 0.85%	Multi	2019	-	-	115
Revolving Credit Facility (EUR 1,000 million) ¹⁾	Libor + 0.45%	Multi	2022	69	42	-
Bank loans and overdrafts	-	Multi	-	244	244	88
				313	286	2,423
Intra-group (floating interest rate)						
Debt to companies within the ISS Group ²⁾	Cibor + 0.50%	DKK	2019	6,618	6,618	6,265
				6,618	6,618	6,265

¹⁾ The current margin of 0.45% will decrease to 0.35% if leverage is below 2.0x and increase to 0.60% if leverage is above 2.5x. At 31 December 2017, leverage was 2.2x. In addition, a utilisation fee applies. For utilisation up to 33%, the fee is 0.10%, for utilisation between 33% and 66%, the fee is 0.20%, and for utilisation above 66%, the fee is 0.30%.

²⁾ The loans are committed until 2019, but classified as current as they are used in the Group's normal operating cycle.

SENSITIVITY ANALYSIS

It is estimated that an increase in relevant interest rates of 1 percentage point would have decreased profit for the year and other comprehensive income by DKK 42 million (2016: decreased both items by DKK 56 million).

The estimate was based on loans and borrowings with floating interest rates, i.e. disregarding cash and cash equivalents, as the level at 31 December is typically the highest in the year and thus not representative. The analysis assumes that other variables, in particular currency rates, remain constant.

5.6 LIQUIDITY RISK

Liquidity risk results from the Group's potential inability or difficulty in meeting the contractual obligations associated with its financial liabilities due to insufficient liquidity.

For a description of exposure, policy and mitigation, see the overview in 5.4, Financial risk management.

LIQUIDITY RESERVES

The Group's liquidity reserves mainly consist of liquid funds (cash and cash equivalents less not readily available or restricted cash) and unused credit facilities. The level of cash and cash equivalents is typically highest at 31 December and not a representative level for the rest of the year. As at 31 December 2017, the Group's liquid reserves consisted of readily available liquid funds of DKK 6,199 million (2016: DKK 4,240 million) and unused revolving credit facilities of DKK 7,210 million (2016: DKK 6,005 million) where the majority is available for drawing until 3 November 2022.

In addition, as of 31 December 2017, ISS had DKK 1.2 billion of other credit facilities of which DKK 0.6 billion was unused. Such facilities comprise mainly other local credit facilities and finance leases, which are not part of the senior unsecured facilities.

DKK 21 million (2016: DKK 32 million) of the total cash position at 31 December 2017 was placed on blocked or restricted bank accounts due to legal circumstances.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

The contractual maturities of financial liabilities, based on undiscounted contractual cash flows, are shown in the maturity table below. The undiscounted contractual cash flows include expected interest payments, estimated based on market expectations at the reporting date. The risk implied from the values reflects the one-sided scenario of cash outflows only. Trade payables and other financial liabilities mainly finance assets such as trade receivables and property, plant and equipment.

DKK million	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
2017								
Loans and borrowings ¹⁾	17,510	19,071	632	289	5,434	3,888	161	8,667
Debt to companies within the ISS Group	6,618	6,651	6,651	-	-	-	-	-
Trade payables and other financial liabilities ²⁾	6,108	6,195	5,986	71	43	36	59	-
Total financial liabilities	30,236	31,917	13,269	360	5,477	3,924	220	8,667
2016								
Loans and borrowings ¹⁾	15,142	16,269	489	235	2,442	5,343	3,807	3,953
Debt to companies within the ISS Group	6,265	6,279	6,279	-	-	-	-	-
Trade payables and other financial liabilities ²⁾	5,748	5,758	5,687	71	-	-	-	-
Total financial liabilities	27,155	28,306	12,455	306	2,442	5,343	3,807	3,953

¹⁾ Excluding debt to companies within the ISS Group.

²⁾ Including payable royalties and management fees to ISS World Services A/S.

5.7 CURRENCY RISK

Currency risk is the risk that arises from changes in exchange rates, and affects the Group's result or value of financial instruments. The Group uses currency swaps to hedge the exposure to currency risk. As fair value adjustments of both the hedged item and the derivative financial instrument are recognised in the income statement in financial income and expenses, hedge accounting in accordance with IAS 39 is not applied.

For a description of exposure, policy and mitigation, see the overview in 5.4, Financial risk management.

IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Fluctuations in foreign exchange rates will affect the value of loans and borrowings (external) as well as the income statement as funding is obtained in various currencies. In 2017, changes in foreign exchange rates related to loans and borrowings resulted in a gain of DKK 22 million (2016: gain of DKK 78 million). The impact is mainly derived from loans and borrowings in TRY, BRL and ARS, which depreciated significantly against DKK in 2017.

SENSITIVITY ANALYSIS

It is estimated that a change in relevant foreign exchange rates would have increased/(decreased) net profit and other comprehensive income by the amounts shown below. The analysis is based on the Group's internal monitoring of currency exposure on loans and borrowings, intercompany loans as well as cash and cash equivalents. Further, the analysis is based on foreign exchange rate variances that the Group considered to be reasonably possible at the reporting date and assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

DKK million	Currency exposure (nominal value)	Currency swaps (contractual value)	Total exposure	Sensitivity		
				Increase in foreign exchange rates	Net profit	Other comprehensive income
2017						
EUR/DKK	(14,879)	7,578	(7,301)	1%	(73)	(73)
USD/DKK	2,009	(2,212)	(203)	10%	(20)	(20)
Other/DKK	981	(826)	155	10%	16	16
Total	(11,889)	4,540	(7,349)			
2016						
EUR/DKK	(13,419)	5,151	(8,268)	1%	(79)	(79)
USD/DKK	546	(579)	(33)	10%	(11)	(11)
Other/DKK	612	(542)	70	10%	29	29
Total	(12,261)	4,030	(8,231)			

REMUNERATION

SECTION 6

6.1 REMUNERATION TO THE BOARD OF DIRECTORS AND THE EXECUTIVE GROUP MANAGEMENT

The management team of the ISS Global Group formally consists of the Managing Director and the Board of Directors. Members of the management team are not separately remunerated for their duties performed in the ISS Global Group.

As the ISS Global Group has no significant operating activities independently of the ISS A/S Group, it relies on the management team of the ISS A/S Group who has the authority and responsibility for planning, implementing and controlling the ISS Global Group's activities. Consequently, key management personnel of the ISS A/S Group is also considered key management personnel of the ISS Global Group.

Remuneration to key management personnel of the ISS A/S Group is specified below:

DKK thousand	2017			2016		
	EGM			EGM		
	Board	EGMB	Corporate Senior Officers	Board	EGMB	Corporate Senior Officers
Base salary and non-monetary benefits	8,490	15,215	40,033	7,645	12,919	40,620
Annual bonus	-	8,718	19,798	-	8,343	24,247
Share-based payments	-	4,637	11,061	-	6,771	17,547
Total remuneration	8,490	28,570	70,892	7,645	28,033	82,414

6.2 SHARE-BASED PAYMENTS

ISS A/S has an equity-settled share-based **long-term incentive programme (LTIP)** as well as a **deferred bonus programme**, which is partly settled in shares. The LTIP is equity-settled in ISS A/S, who recharges costs relating to the ISS Group.

LONG-TERM INCENTIVE PROGRAMME

Members of the EGM of ISS A/S (EGMB and Corporate Senior Officers of the Group), and other senior officers of the Group, were granted a number of PSUs. Upon vesting, each PSU entitles the holder to receive one share at no cost.

The programme will vest on the date of the third anniversary of the grant. PSUs have vesting criteria of total shareholder return (TSR) and earnings per share (EPS), equally weighted. TSR peers are the Nasdaq Copenhagen OMX C20 and a peer group of comparable international service companies.

For the LTIP 2016 and LTIP 2017 (but not previous programmes) participants are compensated for any dividend distributed during time of grant and time of vesting.

THRESHOLD	VESTING	TSR (LTIP 2015-2017)	EPS GROWTH ¹⁾ (LTIP 2015)	EPS GROWTH ¹⁾ (LTIP 2016)	EPS GROWTH ¹⁾ (LTIP 2017)
Below threshold	0%	Below median of peer groups	Less than 7.5% annually	Less than 6% annually	Less than 3% annually
Threshold	25%	At median of peer groups	7.5% annually	6% annually	3% annually
Maximum	100%	At upper quartile of peer groups or better	13.5% annually	12% annually	9% annually

Peer groups
International service companies: ABM Industries, Adecco, Aramark, Bunzl, Compass Group, Capita, G4S, Interserve, Mitie Group, Randstad, Rentokil Initial, Securitas, Serco, Sodexo. Berendsen omitted due to delisting in September 2017.
OMX C20: A.P. Møller – Mærsk A, A.P. Møller – Mærsk B, Carlsberg, Chr. Hansen Holding, Coloplast, Danske Bank, DSV, FLSmidth & Co (2015/2016 only), Genmab, GN Store Nord, Jyske Bank, Lundbeck (2017 only), Nets (2017 only), Nordea Bank (2015/2016 only), Novo Nordisk, Novozymes, Pandora, TDC, Tryg (2015/2016 only), Vestas Wind Systems, William Demant Holding, Ørsted (2017 only).

¹⁾ Adjusted earnings per share excluding Other income and expenses, net. EPS growth is measured as compound annual growth rate (CAGR).

VALUE OF THE PROGRAMMES AND IMPACT IN THE INCOME STATEMENT

	LTIP 2014	LTIP 2015	LTIP 2016	LTIP 2017
Total PSUs granted	964,550	785,976	801,103	711,717
Number of participants	141	142	141	155
Fair value of PSUs expected to vest at grant date, DKK million	83	89	103	102
Fair value of PSUs expected to vest at 31 December 2017, DKK million	-	103	54	52
Recognised in the income statement in 2017, DKK million ¹⁾	7	37	9	15
Not yet recognised in respect of PSUs expected to vest, DKK million	-	9	22	37

¹⁾ Hereof DKK 5 million were expensed in ISS A/S and DKK 26 million were expensed in ISS World Services A/S.

APPLIED ASSUMPTIONS AT THE TIME OF GRANT

	LTIP 2015	LTIP 2016	LTIP 2017
Share price (DKK)	219	241	270
Expected volatility	21.9% ¹⁾	24.5% ¹⁾	27.9% ¹⁾
Expected life of grant	3 years	3 years	3 years
Risk-free interest rate	0.8%-2.0%	0.6%-1.6%	(0.2)%-2.4%

¹⁾ Based on observable market data for peer groups.

6.2 SHARE-BASED PAYMENTS (CONTINUED)

LTIP – VESTED

In March 2017, the LTIP 2014 programme vested and the participants received shares in ISS A/S at no cost. Based on the annual EPS and TSR performances for 2014, 2015 and 2016, 96% of the granted PSUs, equal to 799,350 PSUs, vested. After this vesting, no further PSUs are outstanding under the LTIP 2014 and the programme has lapsed.

LTIP 2014 Number of PSUs	EGM			Total
	EGMB	Corporate Senior Officers	Other senior officers	
Outstanding at 1 January 2016	76,850	88,354	761,163	926,367
Granted	749	1,604	10,028	12,381
Transferred	-	32,878	(32,878)	-
Cancelled	(27,125)	(14,606)	(59,574)	(101,305)
Outstanding at 31 December 2016	50,474	108,230	678,739	837,443
Vested	(48,470)	(103,930)	(646,950)	(799,350)
Forfeited	(2,004)	(4,300)	(26,799)	(33,103)
Cancelled	-	-	(4,990)	(4,990)
Outstanding at 31 December 2017	-	-	-	-

LTIP – OUTSTANDING PSUs

LTIP 2015 Number of PSUs	EGM			Total
	EGMB	Corporate Senior Officers	Other senior officers	
Outstanding at 1 January 2016	57,231	101,157	608,203	766,591
Granted	558	1,726	7,932	10,216
Transferred	-	26,012	(26,012)	-
Cancelled	(20,200)	(12,419)	(47,452)	(80,071)
Outstanding at 31 December 2016	37,589	116,476	542,671	696,736
Cancelled	-	-	(26,227)	(26,227)
Outstanding at 31 December 2017 ¹⁾	37,589	116,476	516,444	670,509

LTIP 2016

Number of PSUs

Granted	54,063	142,823	585,157	782,043
Cancelled	-	(12,539)	(92,923)	(105,462)
Outstanding at 31 December 2016	54,063	130,284	492,234	676,581
Granted	1,548	3,728	13,784	19,060
Cancelled	-	(14,026)	(39,250)	(53,276)
Outstanding at 31 December 2017	55,611	119,986	466,768	642,365

¹⁾ In March 2018, the PSUs granted under LTIP 2015 will vest with 91% based on the annual EPS and TSR performances for 2015, 2016 and 2017.

6.2 SHARE-BASED PAYMENTS (CONTINUED)

LTIP 2017 Number of PSUs	EGM			Total
	EGMB	Corporate Senior Officers	Other senior officers	
Granted	58,182	101,596	551,939	711,717
Cancelled	-	(13,355)	(88,320)	(101,675)
Outstanding at 31 December 2017	58,182	88,241	463,619	610,042

DEFERRED BONUS PROGRAMME

In March 2017, the remaining 50% of the restricted share units (RSUs) equal to 25,993 RSUs, which were granted in settlement of the deferred bonus awarded under the Group's annual bonus programme for the financial year 2014, were converted into shares in ISS A/S. After this conversion, no further RSUs are outstanding.

Number of RSUs	EGM			Total
	EGMB	Corporate Senior Officers	Other senior officers	
Outstanding at 1 January 2016	12,686	19,937	19,358	51,981
Transferred	(2,779)	(1,909)	4,688	-
Paid out	(6,342)	(9,013)	(10,633)	(25,988)
Outstanding (vested) at 31 December 2016	3,565	9,015	13,413	25,993
Paid out	(3,565)	(9,015)	(13,413)	(25,993)
Outstanding at 31 December 2017	-	-	-	-

ACCOUNTING POLICY

The value of services received in exchange for granted performance-based share units (PSUs) is measured at fair value at the grant date and recognised in staff costs over the vesting period with a corresponding debt to ISS A/S.

The fair value of granted PSUs is measured using a generally accepted valuation model taking into consideration the terms and conditions upon which the PSUs were granted including market-based vesting conditions (TSR condition).

On initial recognition, an estimate is made of the number of PSUs expected to vest. The estimated number is subsequently revised for changes in the number of PSUs expected to vest due to non-market based vesting conditions.

6.3 PENSIONS AND SIMILAR OBLIGATIONS

DEFINED CONTRIBUTION PLANS

The majority of the Group's pension schemes are defined contribution plans where contributions are paid to publicly or privately administered pension plans on a statutory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Pension costs related to such plans are recognised in Staff costs and amounted to DKK 1,380 million in 2017 (2016: 1,607 million), corresponding to 91% of the Group's pension costs (2016: 90%).

DEFINED BENEFIT PLANS

The Group has a number of defined benefit plans where the responsibility for the pension obligation towards the employees rests with the Group. The largest plans are in Switzerland and the UK accounting for 86% (2016: 88%) of the Group's obligation (gross) and 96% (2016: 98%) of its plan assets.

The defined benefit plans are primarily based on years of service, and benefits are generally determined on the basis of salary and rank. For defined benefit plans the Group assumes the risk associated with future developments in salary, interest rates, inflation, mortality and disability etc.

The majority of the obligations are funded with assets placed in independent pension funds. In some countries, primarily Sweden and France, the obligation is unfunded. For these unfunded plans the retirement benefit obligations amounted to DKK 683 million or 9% of the present value of the gross obligation (2016: DKK 690 million or 9%).

Switzerland Participants are insured against the financial consequences of retirement, disability and death. The pension plans guarantee a minimum interest credit and fixed conversion rates at retirement. Contributions are paid by both the employee and the employer. The plans must be fully funded. In case of underfunding, recovery measures must be taken, such as additional financing from the employer or from the employer and employees, reduction of benefits or a combination of both. The pension plans include a risk-sharing element between ISS and the plan participants.

The UK Participants are insured against the financial consequences of retirement and death. The schemes do not provide any insured disability benefits. The pension plans are plans guaranteeing defined benefit pension at retirement on a final salary basis. The majority of the pension plans does not include a risk-sharing element between ISS and the plan participants.

SIGNIFICANT ACCOUNTING ESTIMATES

The present value of defined benefit obligations is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. All assumptions are assessed at the reporting date. Changes in these assumptions may significantly affect the liabilities and pension costs under defined benefit plans. The range and weighted average of these assumptions as well as sensitivities on key assumptions are disclosed in this note.

The discount rates used for calculating the present value of expected future cash flows are based on the market yield of high quality corporate bonds or government bonds with a maturity approximating to the terms of the defined benefit obligations.

ISS participates in multi-employer pension schemes that by nature are defined benefit plans. Some funds are not able to provide the necessary information in order for the Group to account for the schemes as defined benefit plans and the schemes are therefore accounted for as defined contribution plans. There is a risk that the plans are not sufficiently funded. However, information on surplus or deficit in the schemes is not available.

ACCOUNTING POLICY

Contributions to **defined contribution plans** are recognised in Staff costs when the related service is provided. Any contributions outstanding are recognised in Other liabilities.

Defined benefit plans The Group's net obligation is calculated annually by a qualified actuary using the projected unit credit method. This calculation is done separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The present value less the fair value of any plan assets is recognised in Pensions and similar obligations.

When the calculation results in a potential asset, recognition is limited to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Pension costs are calculated based on actuarial estimates and financial expectations at the beginning of the year. Service costs are recognised in Staff costs and net interest is recognised in Financial expenses. Differences between the expected development in pension assets and liabilities and the realised amounts at the reporting date are designated actuarial gains or losses and recognised in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognised in Staff costs. The Group recognises gains and losses on the settlement when the settlement occurs.

Other long-term employee benefits are recognised based on an actuarial calculation. Service costs and actuarial gains and losses are recognised in Staff costs. Interest on long-term employee benefits are recognised in Financial expenses. Other long-term employee benefits comprise jubilee benefits, long-service or sabbatical leave etc.

6.3 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

DKK million	2017			2016		
	Present value of obligation	Fair value of plan assets	Obligation, net	Present value of obligation	Fair value of plan assets	Obligation, net
Carrying amount at 1 January	7,744	6,234	1,510	7,516	5,999	1,517
Current service costs	169	-	169	189	-	189
Interest on obligation/plan assets	78	56	22	108	73	35
Past service costs	(57)	-	(57)	(43)	-	(43)
Recognised in the income statement	190	56	134	254	73	181
Actuarial (gains)/losses from demographic assumptions	38	-	38	(109)	-	(109)
Actuarial (gains)/losses from financial assumptions	10	-	10	324	-	324
Actuarial (gains)/losses due to experience adjustments	70	-	70	75	-	75
Return on plan assets excluding interest income	-	326	(326)	-	211	(211)
Impact from asset ceiling	-	(45)	45	-	(6)	6
Reclassifications	165	149	16	(142)	(142)	-
Recognised in other comprehensive income	283	430	(147)	148	63	85
Foreign exchange adjustments	(530)	(450)	(80)	(136)	(118)	(18)
Additions from new contracts, net	9	-	9	3	-	3
Employee contributions	125	125	-	132	132	-
Employer contributions	-	196	(196)	-	180	(180)
Benefits paid	(211)	(130)	(81)	(173)	(101)	(72)
Impact from asset ceiling	-	45	(45)	-	6	(6)
Other changes	(607)	(214)	(393)	(174)	99	(273)
Carrying amount at 31 December	7,610	6,506	1,104	7,744	6,234	1,510
Other long-term employee benefits			151			187
Reclassification to Liabilities held for sale			(43)			(93)
Accumulated impact from asset ceiling			79			34
Pensions and similar obligations at 31 December			1,291			1,638

Past service costs In 2017, the negative past service costs mainly related to decrease of benefits in Switzerland due to a plan amendment. In 2016, the negative past service costs mainly related to a plan amendment in Indonesia.

Reclassifications in 2017, related to Belgium where the pension plans were reclassified from defined contribution to defined benefit. In 2016, the reclassification related to pension plans in India changing from defined benefit to defined contribution.

Contribution to defined benefit plans The Group expects to contribute DKK 253 million in 2018 (2017: DKK 240 million).

MAJOR CATEGORIES OF PLAN ASSETS (% OF TOTAL PLAN ASSETS)

	2017	2016
Listed shares	34%	32%
Corporate bonds	30%	36%
Property	12%	12%
Cash and cash equivalents	6%	5%
Government bonds	1%	1%
Other	17%	14%
Total	100%	100%

6.3 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

ACTUARIAL ASSUMPTIONS

Actuarial calculations and valuations are performed annually for all major defined benefit plans. The actuarial assumptions vary from country to country due to local conditions. Discount rates are based on the market yield of high quality corporate bonds or government bonds with a maturity approximating to the terms of the defined benefit obligations.

	2017				2016			
	CHF	GBP	EUR	Other currencies	CHF	GBP	EUR	Other currencies
Discount rates at 31 Dec	0.6%	2.7%	1.3-3.2%	1.0-10.8%	0.6%	2.8%	1.1-2.6%	1.0-8.3%
Future salary increases	1.0%	1.8%	0.0-3.5%	0.0-8.6%	1.0%	1.0%	0.0-3.5%	0.0-10.0%
Future pension increases	0.0%	3.0%	0.0-2.0%	0.0-1.9%	0.0%	3.2%	0.0-2.0%	0.0-1.5%

SENSITIVITY ANALYSIS

The table below illustrates the sensitivity related to significant actuarial assumptions used in the calculation of the defined benefit obligation recognised at the reporting date. The analysis is based on changes in assumptions that the Group considered to be reasonably possible at the reporting date. It is estimated that the relevant changes in assumptions would have increased/(decreased) the defined benefit obligation by the amounts shown below:

DKK million	2017		2016	
	+0.5%	-0.5%	+0.5%	-0.5%
Discount rate	(478)	554	(524)	591
Future price inflation	171	(70)	90	(84)
Future salary increases	130	(33)	78	(77)
Future pension increases	359	(46)	383	(78)
	+1 year	-1 year	+1 year	-1 year
Life expectancy	213	(114)	180	(179)

The estimated weighted average duration of the defined benefit obligation was 14 years (2016: 15 years) and is split into:

Years	2017	2016
Active employees	13	14
Retired employees	13	14
Deferred vested ¹⁾	22	22
Total employees ¹⁾	14	15

¹⁾ The impact from deferred vested on total estimated weighted average duration is minor due to the fact that deferred vested make up less than 2% of the participants, and do not exist in many of the shorter duration plans.

6.4 GOVERNMENT GRANTS

The Group received government grants in the form of wage subventions, which have been recognised as a reduction of staff costs. The grants compensate the Group for staff costs primarily related to social security and wage increases as well as hiring certain categories of employees such as trainees, disabled persons, long-term unemployed and employees in certain age groups.

OTHER REQUIRED DISCLOSURES

SECTION 7

7.1 PROPERTY, PLANT AND EQUIPMENT

DKK million	2017	2016
Cost at 1 January	5,230	5,308
Foreign exchange adjustments	(226)	(86)
Acquisitions	162	2
Additions	738	647
Divestments	(151)	(58)
Disposals	(680)	(628)
Reclassification from Intangible assets	-	73
Reclassification to Assets held for sale	(50)	(28)
Cost at 31 December	5,023	5,230
Depreciation at 1 January	(3,675)	(3,716)
Foreign exchange adjustments	173	57
Acquisitions	(124)	-
Depreciation	(530)	(537)
Divestments	107	31
Disposals	602	560
Reclassification from Intangible assets	-	(66)
Reclassification to Assets held for sale	(1)	(4)
Depreciation at 31 December	(3,448)	(3,675)
Carrying amount at 31 December	1,575	1,555
Hereof carrying amount of:		
Land and buildings	54	70
Assets held under finance leases	173	166

PROPERTY AND EQUIPMENT UNDER OPERATING LEASES

The Group leases a number of properties, vehicles (primarily cars) and other equipment under operating leases. The leases typically run for a period of 2-5 years, with an option to renew the lease after that date.

The disclosed non-cancellable operating lease payments below assume no early termination of any agreement.

DKK million	Year 1	Year 2	Year 3	Year 4	Year 5	After 5 years	Total
2017	1,109	806	541	340	216	308	3,320
2016	1,157	803	523	329	200	344	3,356

In 2017, DKK 1,617 million (2016: DKK 1,757 million) was recognised as an expense in the income statement in respect of operating leases.

Leasing of cars is primarily entered under an international car fleet lease framework agreement which is valid until end 2018. The majority of the underlying agreements have a lifetime duration of 3-5 years.

7.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

ACCOUNTING POLICY

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and costs directly attributable to the acquisition until the date when the asset is ready for use. The net present value of estimated liabilities related to dismantling and removing the asset and restoring the site on which the asset is located is added to the cost.

The cost of assets held under finance leases is stated at the lower of fair value of the asset and the net present value of future minimum lease payments. When calculating the net present value, the interest rate implicit in the lease or an approximated rate is applied as the discount rate.

A finance lease is a lease that transfers substantially all risks and rewards of ownership to the lessee. Other leases are classified as operating leases.

Subsequent costs, e.g. for replacing part of an item, are recognised in the cost of the asset if it is probable that the future economic benefits embodied by the item will flow to the Group. The replaced item is transferred to the income statement. All other costs for common repairs and maintenance are recognised in the income statement when incurred.

Depreciation is based on the cost of an asset less its residual value. When parts of an item of property, plant and equipment have different useful lives, they are accounted for separately. The estimated useful life and residual value are determined at the acquisition date. If the residual value exceeds the carrying amount depreciation is discontinued.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Assets under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for current and comparative years are as follows:

Estimated useful life

Plant and equipment	3-10 years
Leasehold improvements	(the lease term) 5-12 years
Buildings	20-40 years

Land is not depreciated.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted prospectively, if appropriate.

Gains and losses arising on the disposal or retirement of property, plant and equipment are measured as the difference between the selling price less direct sales costs and the carrying amount, and are recognised in Other operating expenses in the year of sale, except gains and losses arising on disposal of property, which are recognised in Other income and expenses, net.

Assets held under operating leases are not recognised in the statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

7.2 PROVISIONS

DKK million	Legal and labour-related cases	Self-insurance	Other	Total
Provisions at 1 January 2017	167	184	92	443
Foreign exchange adjustments	(18)	(14)	(8)	(40)
Additions	85	162	54	301
Acquisitions	3	41	55	99
Used during the year	(49)	(172)	(82)	(303)
Unused amounts reversed	(40)	(1)	(5)	(46)
Unwind of discount and other financial expenses	5	1	0	6
Reclassification to Liabilities held for sale	(23)	-	(3)	(26)
Reclassification from Other liabilities	4	5	8	17
Provisions at 31 December 2017	134	206	111	451
Current	106	78	49	233
Non-current	28	128	62	218

Self-insurance In the UK, Ireland, the USA, Australia and Hong Kong, the Group carries insurance provisions on employers' liability and/or workers compensation. Generally, the provisions for self-insurance are based on valuations from external actuaries. The countries are self-insured up to the following limits:

- **UK** – DKK 20 million (2016: DKK 20 million) yearly aggregated limit and DKK 4 million (2016: DKK 4 million) per claim
- **Ireland** – DKK 1 million (2016: DKK 4 million) per claim
- **USA** – DKK 3 million (2016: DKK 3.5 million) per claim
- **Australia** – DKK 2.4 million (2016: DKK 2.5 million) per claim
- **Hong Kong** – DKK 24 million (2016: DKK 27 million) yearly

Furthermore, the provision includes liability not insured under the global general liability insurance with a self-insured level of DKK 0.2 million per claim and obligations and legal costs in relation to various insurance cases if not covered by the insurance.

Other comprises various obligations incurred, e.g. restructuring costs, guarantee reserves, dismantling costs, operational issues, closure of contracts and costs of meeting obligations under onerous contracts. At 31 December 2017, provisions for onerous contracts were included with DKK 37 million (2016: DKK 23 million).

SIGNIFICANT ACCOUNTING ESTIMATES

The amount recognised as a provision is management's best estimate of the amount required to settle the obligation. The outcome depends on future events that are uncertain by nature. In assessing the likely outcome of lawsuits and tax disputes etc., management bases its assessment on external legal assistance and established precedents.

ACCOUNTING POLICY

Provisions are recognised if the Group, as a result of a past event has a present legal or constructive obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation. The costs required to settle the obligation are discounted if this significantly impacts the measurement of the liability. The entity's average borrowing rate is used as discount rate.

Restructuring costs are recognised in Provisions when a detailed, formal restructuring plan is announced to the affected parties on or before the reporting date.

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

Asset retirement obligation When the Group has a legal obligation to dismantle or remove an asset or restore a site or rented facilities when vacated, a provision is recognised corresponding to the present value of expected future costs. The present value of the obligation is included in the cost of the relevant tangible asset and depreciated accordingly.

7.3 CONTINGENT LIABILITIES

GUARANTEE COMMITMENTS

Indemnity and guarantee commitments (mainly towards public authorities and insurance companies) at 31 December 2017 amounted to DKK 427 million (2016: DKK 478 million).

PERFORMANCE GUARANTEES

The Group has issued performance guarantee bonds for service contracts amounting to DKK 3,190 million (2016: DKK 1,791 million) of which DKK 1,294 million (2016: DKK 1,316 million) were bank-guaranteed performance bonds. Such performance bonds are issued in the ordinary course of business in the service industry to guarantee towards specific customers satisfactory completion of work in accordance with service contracts.

DIVESTMENTS

The Group makes provisions for claims from purchasers or other parties in connection with divestments and representations and warranties given in relation to such divestments. Management believes that provisions made at 31 December 2017 are adequate. However, there can be no assurance that one or more major claims arising out of the Group's divestment of companies will not adversely affect the Group's activities, results of operations and financial position.

LEGAL PROCEEDINGS

The Group is party to certain legal proceedings. Management believes that these proceedings (many of which are labour-related cases incidental to the business) will not have a material impact on the Group's financial position beyond the assets and liabilities already recognised in the statement of financial position at 31 December 2017.

RESTRUCTURING PROJECTS

Restructuring projects, e.g. related to implementation of GREAT, have been undertaken across different geographies and service areas. Labour laws especially in Europe include restrictions on dismissals and procedural rules to be followed. The procedures applied by ISS could be challenged in certain jurisdictions resulting in liabilities. Management believes that this would not have a material impact on the Group's financial position beyond the assets and liabilities already recognised in the statement of financial position at 31 December 2017.

7.4 AVERAGE NUMBER OF EMPLOYEES

In 2017, average number of employees was 490,915 (2016: 498,529). The decrease was mainly due to contract losses and exits as well as divestments.

7.5 RELATED PARTIES

PARENT AND ULTIMATE CONTROLLING PARTY

The sole shareholder of ISS Global A/S, ISS World Services A/S, has controlling influence in the Group and is wholly owned by ISS A/S (the ultimate parent).

KEY MANAGEMENT PERSONNEL

The Board of ISS A/S and the EGM of ISS A/S are considered the Group's key management personnel as defined in note 6.1, Remuneration to the Board of Directors and the Executive Group Management.

Apart from remuneration, including Long-Term Incentive Programmes, there were no significant transactions with members of the Board and the EGM in 2017.

OTHER RELATED PARTY TRANSACTIONS

In 2017, the Group had the following transactions with other related parties, which were all made on market terms:

- the Group was charged royalty and management fees from ISS World Services A/S amounting to DKK 1,264 million
- the Group received/paid interest from/to companies within the ISS Group, see 5.3, Financial income and expenses
- the Group's short-term debt to ISS A/S amounted to DKK 6,618 million at 31 December 2017

DIRECTORSHIPS AND EXTERNAL EXECUTIVE POSITIONS OF THE BOARD AND MANAGING DIRECTORS AT 31 DECEMBER 2017

Board of Directors	Board member	Executive position
Jeff Gravenhorst	Chairman of the board of directors of Rambøll Gruppen A/S, deputy chairman of the board of directors of Nets A/S as well as member of the audit committee of Nets A/S and a member of the Confederation of Danish Industry's (DI) Permanent Committee on Business Policies.	None
Pierre-François Riolacci	Member of the board of directors of KLM (Koninklijke Luchtvaart Maatschappij N.V.).	None
Bjørn Raasteen	Member of the board of directors of certain ISS Group companies.	None
Managing Director	Board member	Executive position
Peter Harder Thomsen	None	None

7.6 OTHER SEGMENT INFORMATION

2017

DKK million	Continental Europe	Northern Europe	Asia & Pacific	Americas	Other countries	Total segments	Unallocated ¹⁾	Elimination ²⁾	Total Group
Operating profit	1,253	963	770	59	0	3,045	(115)	-	2,930
Cash flow from operating activities	1,198	982	626	144	-	2,950	(198)	-	2,752
Total assets	19,025	14,754	7,763	5,173	15	46,730	17,069	(17,893)	45,906
Hereof assets held for sale	1,172	51	-	93	-	1,316	-	-	1,316
Additions to non-current assets ³⁾	724	273	128	1,761	-	2,886	-	-	2,886
Total liabilities	10,505	8,871	3,642	3,993	11	27,022	34,439	(17,511)	43,950
Hereof liabilities held for sale	272	80	-	76	-	428	-	-	428

2016

Operating profit	1,158	1,299	857	(138)	(1)	3,175	(117)	-	3,058
Cash flow from operating activities	1,234	1,149	625	60	2	3,070	(114)	-	2,956
Total assets	18,678	14,191	8,012	3,741	14	44,636	14,766	(15,961)	43,441
Hereof assets held for sale	1,156	258	211	-	-	1,625	-	-	1,625
Additions to non-current assets ³⁾	318	297	159	121	-	895	-	-	895
Total liabilities	10,793	8,129	3,776	2,317	12	25,027	31,883	(15,557)	41,353
Hereof liabilities held for sale	281	47	98	-	-	426	-	-	426

¹⁾ Unallocated assets and liabilities relate to the Group's holding companies and comprise internal and external loans and borrowings, cash and cash equivalents and intra-group balances.

²⁾ Eliminations relate to intra-group balances.

³⁾ Comprise additions to Intangible assets and Property, plant and equipment, including from Acquisitions.

NON-CURRENT ASSETS¹⁾ BY COUNTRY – MORE THAN 5% OF GROUP REVENUE

DKK million	2017	2016
USA & Canada	2,530	1,232
France	2,141	2,139
UK & Ireland	2,153	2,282
Switzerland	1,306	1,395
Spain & Portugal	1,265	1,264
Denmark (ISS A/S's country of domicile)	830	927
Other countries ²⁾	11,166	11,484
Total	21,391	20,723

¹⁾ Excluding deferred tax assets.

²⁾ Including unallocated items and eliminations.

ACCOUNTING POLICY

The accounting policies of the **reportable segments** are described in 2.1, Segment and revenue information.

7.7 FEES TO AUDITORS

DKK million	2017	2016
Statutory audit	24	24
Other assurance services	2	1
Tax and VAT advisory services	5	6
Other services	1	-
Total	32	31

Other assurance services comprised work related to the interim financial statements and other assurance services.

Tax and VAT advisory services mainly related to tax compliance services.

Other services comprised among other things work related to acquisitions and divestments such as financial and tax due diligence.

7.8 SUBSEQUENT EVENTS

Acquisitions and divestments completed from 1 January to 28 February 2018 are listed in 4.1, Acquisitions and 4.2, Divestments.

In addition, on 23 February 2018, we signed an agreement to divest the landscaping activities in the UK with an annual revenue of approximately DKK 426 million (unaudited) and 1,233 employees.

Other than as set out above or elsewhere in these consolidated financial statements, we are not aware of events subsequent to 31 December 2017, which are expected to have a material impact on the Group's financial position.

7.9 NEW STANDARDS AND INTERPRETATIONS NOT YET IMPLEMENTED

IASB has published the following new standards, amendments to existing standards and interpretations that are not yet mandatory for the preparation of the consolidated financial statements of the Group at 31 December 2017:

- IFRS 15 "Revenue from Contracts with Customers"; and
- IFRS 9 "Financial Instruments".

In addition, IASB has published the following new standards, amendments to existing standards and interpretations, which are not yet adopted by the EU at 31 December 2017:

- Amendments to IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement";
- IFRS 16 "Leases";
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures": Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 2 "Share-based payments": Classification and Measurement of Share-based Payment Transactions;
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration";
- IFRIC 23 "Uncertainty over Income Tax Treatments"; and
- Annual Improvements to IFRS 2014-2016 cycle.

The Group expects to adopt the new standards and interpretations when they become mandatory. The standards and interpretations that are approved with different effective dates in the EU than the corresponding effective dates under IASB will be early adopted so that the implementation follows the effective dates under IASB.

7.9 NEW STANDARDS AND INTERPRETATIONS NOT YET IMPLEMENTED (CONTINUED)

IFRS 15 "Revenue from Contracts with Customers" is effective from 1 January 2018 and supersedes IAS 18 and IAS 11, covering contracts for services and work in progress, respectively. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The main principle is that revenue is recognised when control of a good or services transfers to a customer, i.e. when the performance obligation is satisfied.

To evaluate the potential impact of the new standard, we have carried out a group-wide analysis with a risk-based approach. As part of the analysis, we have reviewed a sample of representative key account contracts and evaluated each of the steps in the five-step model to account for revenue.

Based on our analysis, the implementation of the new standard will not have a significant impact on recognition and measurement in the consolidated financial statements. However, some new disclosures, e.g. on revenue backlog and contract balances, will be required.

IFRS 9 "Financial Instruments" is effective from 1 January 2018. The new standard introduces a new expected credit loss (ECL) model, which requires recognition of impairment based on ECL rather than incurred losses as is the case under IAS 39. For financial assets that do not have a significant financing component, e.g. trade receivables, a simplified approach is permitted. The loss should be measured on initial recognition and throughout the life of the receivable at an amount equal to lifetime ECL. Based on our assessment, the implementation of the standard will not have a significant impact on recognition and measurement in the consolidated financial statements.

IFRS 16 "Leases" (superseding IAS 17) will be effective for the financial year beginning on 1 January 2019. The new standard significantly changes the accounting treatment of leases currently treated as operating leases, in that lessees, with a few exceptions, should recognise all types of leases as right-of-use assets in the statement of financial position and the related lease obligations as liabilities. The annual cost of the lease, which will comprise two elements – depreciation and interest expense – will be charged to the lessee's income statement. Currently, operating lease cost is recognised in a single amount within Other operating expenses. Similarly, operating lease payments will be presented in the cash flow statement in two lines – Interest paid and Other financial payments – within Cash flow from operating activities and Cash flow from financing activities, respectively. Currently, operating lease payments are presented as part of Cash flow from operating activities as they are included in Operating profit before other items.

Our business model is based on leasing, rather than owning, property, vehicles (cars) and equipment, primarily under operating leases. At 31 December 2017, the Group was party to more than 21,000 lease agreements. The majority of the lease agreements relates to cars, while the majority of the total lease obligation relates to property.

To evaluate the impact on recognition and measurement of the new standard, in 2017 we carried out a group-wide analysis of all assets under operating leases. Our analysis was based on the assumption that in adopting IFRS 16 we will apply the modified retrospective approach, whereby the cumulative effect is recognised at the date of initial application, i.e. 1 January 2019, and the right-of-use assets are recognised at the same value as the lease obligations. Comparative figures will not be restated.

Based on the analysis, it is our assessment that the implementation of IFRS 16 will have a significant impact on the Group's consolidated financial statements. Assuming that the level of operating leases remains unchanged we expect:

- Property, plant and equipment and Net debt to increase, both in the level of DKK 4 billion;
- Depreciation to increase in the level of DKK 1 billion;
- Operating profit before other items to be slightly improved;
- Net profit to be slightly reduced;
- Financial leverage to be slightly increased; and
- Cash flow from operating activities to be improved and Cash flow from financing activities to be negatively impacted, both in the level of DKK 1 billion.

Except as mentioned above for IFRS 16 "Leases", based on the current business setup and level of activities, none of the standards and interpretations are expected to have a material impact on the recognition and measurement in the consolidated financial statements of the Group.

7.10 GROUP COMPANIES

Below the Group's significant subsidiaries, associates and joint ventures are presented per region. Together these are referred to as "Companies within the ISS Group".

CONTINENTAL EUROPE

Austria

ISS Austria Holding GmbH	100%
ISS Facility Services GmbH	100%
ISS Ground Services GmbH	51%
ISS Ground Services Germany GmbH	51%

Belgium & Luxembourg

ISS Catering N.V.	100%
ISS Facility Services N.V.	100%
ISS Facility Services S.A.	100%

Czech Republic

ISS Facility Services s.r.o.	100%
------------------------------	------

Estonia

ISS Haldus OÜ	100%
---------------	------

France

GIE ISS Services	100%
ISS Facility Management SAS	100%
ISS Holding Paris SAS	100%
ISS Hygiene & Prevention SAS	100%
ISS Logistique et Production SAS	100%
ISS Proprete SAS	100%

Germany

ISS Automotive Services GmbH	100%
ISS Evantec GmbH	100%
ISS Facility Services Holding GmbH	100%
ISS Facility Services Nord GmbH	100%
ISS Facility Services Süd GmbH	100%
ISS IT & Business Services GmbH	100%
ISS Pharma Services GmbH	100%
ISS VSG GmbH	100%

Greece

ISS Facility Services S.A.	100% ⁴⁾
----------------------------	--------------------

Hungary

ISS Facility Services Kft.	100%
Profi-Komfort Kft.	100% ⁴⁾

Israel

Catering Services Ltd.	100%
ISS Catering Services Ltd. (ex Norcat Ltd.)	100%
ISS Cleaning Services Ltd. (ex ISS Ashmoret Ltd.)	100%
ISS Integrated Facility Service Management Ltd.	100%
ISS Israel Comprehensive Business Services Ltd.	100%

Italy

ISS Facility Services S.r.l.	100%
------------------------------	------

Netherlands

ISS Catering Services B.V.	100%
ISS Cure & Care B.V.	100%
ISS Holding Nederland B.V.	100%
ISS Integrated Facility Services B.V.	100%
ISS Nederland B.V.	100%
ISS Security Services B.V.	100%

Poland

ISS Facility Services Sp. Z o.o.	100%
----------------------------------	------

Romania

ISS Facility Services S.R.L.	100%
ISS Romania Group S.R.L.	100%

Russia

Facility Services RUS LLC	100%
---------------------------	------

Slovakia

ISS Facility Services spol. s.r.o.	100%
------------------------------------	------

Slovenia

ISS Facility Services d.o.o.	100%
------------------------------	------

Spain & Portugal

Integrated Service Solutions, S.L.	100%
ISS Facility Services, S.A.	100%
ISS Soluciones de Seguridad, S.L.	100%
ISS Facility Services G. e M. de E., Lda	100%

Switzerland

ISS Facility Services AG	100%
ISS Kanal Services AG	100%
ISS Schweiz AG	100%

Turkey

ISS Hazir Yemek Üretim ve Hizmet A.Ş.	90% ³⁾
ISS Proser Koruma ve Güvenlik Hizmetleri A.Ş.	90% ³⁾
ISS Tesis Yönetim Hizmetleri A.Ş.	90% ³⁾

NORTHERN EUROPE

Denmark (ISS A/S's country of domicile)

ISS Facility Services A/S	100%
ISS Global A/S	100%
ISS Global Management A/S	100%
ISS Holding France A/S	100%
ISS Lending A/S	100% ⁵⁾

Finland

ISS Palvelut Holding Oy	100%
ISS Palvelut Oy	100%
Opset Oy	76% ¹⁾

Norway

ISS Facility Services AS	100%
ISS Holding AS	100%
ISS Management AS	100%
ISS Serveringspartner AS	100%
ISS Service Management AS	100%
NSB Trafikkservice AS	45% ¹⁾

Sweden

ISS Facility Services AB	100%
ISS Facility Services Holding AB	100%
ISS Palvelut Holding AB	100%

UK & Ireland

ISS Damage Control Ltd.	100%
ISS Facility Services Ltd.	100%
ISS Mediclean Ltd.	100%
ISS UK Holding Ltd.	100%
ISS UK Ltd.	100%
Spectrum Franchising Ltd.	100%
ISS Ireland Ltd.	100%

7.10 GROUP COMPANIES (CONTINUED)

ASIA & PACIFIC

Australia & New Zealand

ISS Catering Services Pty Ltd.	100%
ISS Facility Management Pty Limited	100%
ISS Facility Services Australia Ltd.	100%
ISS Facility Services Pty Ltd.	100%
ISS Health Services Pty Ltd.	100%
ISS Holdings Pty Ltd.	100%
ISS Hospitality Pty Limited	100%
ISS Integrated Services Pty Ltd.	100%
ISS Property Services Pty Ltd.	100%
ISS Security Pty Ltd.	100%
Pacific Invest December 2004 Pty Ltd.	100%
Pacific Service Solutions Pty Ltd.	100%
ISS Facilities Services Ltd.	100%
ISS Holdings NZ Ltd.	100%

Brunei

ISS Facility Services Sdn. Bhd.	50% ²⁾
---------------------------------	-------------------

China

ISS Facility Services (Shanghai) Ltd.	100%
ISS Hongrun (Shanghai) Cleaning Services Limited	100%
Shanghai B&A Security Co., Ltd.	100%
Shanghai ISS Catering Management Ltd.	100%

Hong Kong

Hung Fat Cleaning Transportation Co., Ltd.	100%
ISS Adams Securforce Ltd.	100%
ISS China Holdings I Ltd.	100%
ISS China Holdings Ltd.	100%
ISS EastPoint Properties Ltd.	100%
ISS EastPoint Property Management Ltd.	100%
ISS Environmental Services (HK) Ltd.	100%
ISS Facility Services Ltd.	100%
ISS Facility Services China Ltd.	100%
ISS Greater China Ltd.	100%
ISS Mediclean (HK) Ltd.	100%
ISS Pan Asia Security Services Ltd.	100%
JSL Ltd.	100%
Silvertech E&M Engineering Co., Ltd.	100%

India

Innovative and Payroll Advisory Services Pvt. Ltd.	46% ²⁾
ISS Facility Services India Pvt. Ltd.	100%
ISS SDB Security Services Pvt. Ltd.	46% ²⁾
Modern Protection & Investigations Pvt. Ltd.	46% ²⁾

Indonesia

PT ISS Facility Services	49% ²⁾
PT ISS Indonesia	100%
PT ISS Jasa Fasilitas	0% ²⁾
PT ISS Parking Management	100%

Japan

Nihon ISS KK	100%
--------------	------

Malaysia

ISS Facility Services Sdn. Bhd.	100%
---------------------------------	------

Philippines

ISS Facility Services Phils., Inc.	100%
------------------------------------	------

Singapore

ISS Catering Services Pte. Ltd.	100%
ISS Facility Services Pte. Ltd.	100%
ISS Hydroculture Pte. Ltd.	100%
ISS M&E Pte. Ltd.	100%

Taiwan

ISS Facility Services Ltd.	100%
ISS Security Ltd.	100%

Thailand

ISS Facility Services Co., Ltd.	100%
ISS Security Services Co., Ltd.	100%
ISS Support Services Co., Ltd.	100%

AMERICAS

Argentina

ISS Argentina S.A.	100%
ISS Facility Services S.R.L.	100%
ISS Litoral S.R.L.	100%
ISS Personal Temporario S.R.L.	100%

Brazil

ISS Manutencao e Servicos Integrados Ltda	100%
ISS Servicos de Logistica Integrada Ltda	100%
ISS Servisystem do Brasil Ltda.	100%

Chile

Apunto Servicios de Alimentacion S.A.	100%
ISS Chile S.A.	100%
ISS Facility Services S.A.	100%
ISS Servicios Generales Ltda.	100%
ISS Servicios Integrales Ltda.	100%

Mexico

ISS Centro América, S de RL de CV	100%
ISS Facility Services, SA de CV	100%
ISS Servicios Integrales, S. de R.L. de C.V.	100%

Uruguay

ISS Uruguay S.A.	100%
Samilar S.A.	100%

USA & Canada

ISS C&S Building Maintenance Corporation	100%
ISS Facility Services California, Inc.	100%
ISS Facility Services Holding, Inc.	100%
ISS Facility Services, Inc.	100%
ISS Holding Inc.	100%
ISS Management and Finance Co., Inc.	100%
ISS TMC Services, Inc.	100%
ISS Uniguard Security, Inc.	100%
Guckenheimer Enterprises, Inc.	100%
ISS Facility Services Inc	100%

Notes

¹⁾ Associate.

²⁾ By virtue of the governance structure, the Group has the power to govern the financial and operating policies of the company. Consequently, the company is consolidated as a subsidiary.

³⁾ The non-controlling shareholder holds a put option which is accounted for as if the put option has already been exercised. Accordingly, the subsidiary is consolidated with no non-controlling interest.

⁴⁾ Divested in 2018.

⁵⁾ ISS Lending A/S applies §78a of the Danish Financial Statements Act. Consequently, their annual report is prepared in accordance with the requirements for Class B companies. ISS Global A/S is liable for all ISS Lending A/S's current and future obligations.

PARENT COMPANY FINANCIAL STATEMENTS

PRIMARY STATEMENTS

- 89 Income statement of the parent company
- 89 Statement of comprehensive income of the parent company
- 90 Statement of cash flows of the parent company
- 91 Statement of financial position of the parent company
- 92 Statement of changes in equity of the parent company

ACCOUNTING POLICIES

- 93 1 Significant accounting policies
- 93 2 Significant accounting estimates and judgements

INCOME STATEMENT

- 93 3 Revenue
- 94 4 Other operating income and expenses, net
- 94 5 Fees to auditors
- 94 6 Other expenses
- 94 7 Financial income and expenses
- 95 8 Income taxes

STATEMENT OF FINANCIAL POSITION

- 95 9 Investments in subsidiaries and joint ventures
- 97 10 Deferred tax
- 97 11 Loans and borrowings

OTHER REQUIRED DISCLOSURES

- 98 12 Remuneration to the Board of Directors and the Executive Group Management
- 98 13 Contingent liabilities
- 99 14 Financial risk management
- 101 15 Related parties
- 102 16 New standards and interpretations not yet implemented
- 102 17 Subsidiaries and joint ventures

INCOME STATEMENT OF THE PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	Note	2017	2016
Revenue	3	22	28
Other operating income and expenses, net	4, 5	11	(69)
Operating profit/(loss) before other items		33	(41)
Other expenses	6	(2)	-
Operating profit/(loss)		31	(41)
Income from subsidiaries and joint ventures	9	594	3,627
Financial income	7	240	221
Financial expenses	7	(463)	(348)
Profit before tax		402	3,459
Income taxes	8	(26)	(20)
Net profit		376	3,439
Attributable to:			
The owner of ISS Global A/S		376	3,439
Net profit		376	3,439

STATEMENT OF COMPREHENSIVE INCOME OF THE PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	2017	2016
Net profit	376	3,439
Comprehensive income	376	3,439
Attributable to:		
The owner of ISS Global A/S	376	3,439
Comprehensive income	376	3,439

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	Note	2017	2016
Operating profit/(loss) before other items		33	(41)
Changes in working capital		6	46
Changes in provisions		-	57
Other expenses paid		(2)	-
Interest received from companies within the ISS Group		234	195
Interest received, external		5	-
Interest paid to companies within the ISS Group		(67)	(42)
Interest paid, external		(280)	(220)
Corporate tax and joint taxation contribution (paid)/received, net		0	(8)
Cash flow from operating activities		(71)	(13)
Payment in respect of earn-out		(92)	(18)
Capital increase in subsidiaries and joint ventures	9	(81)	(212)
Acquisition of subsidiaries and joint ventures	9	(17)	-
Proceeds from sale and liquidation of subsidiaries and joint ventures	9	6	3
Dividends received from subsidiaries and joint ventures	9	1,477	3,119
Cash flow from investing activities		1,293	2,892
Proceeds from bonds	11	4,439	-
Repayment of senior facilities	11	(2,230)	-
Other financial payments, net	11	140	(159)
Dividends paid to the shareholder		(1,200)	(2,185)
Payments (to)/from companies within the ISS Group, net		(764)	(1,141)
Cash flow from financing activities		385	(3,485)
Total cash flow		1,607	(606)
Cash and cash equivalents at 1 January		1,173	1,800
Total cash flow		1,607	(606)
Foreign exchange adjustments		(46)	(21)
Cash and cash equivalents at 31 December		2,734	1,173

STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

AT 31 DECEMBER

DKK million	Note	2017	2016
ASSETS			
Investments in subsidiaries and joint ventures	9	23,428	24,074
Receivables from companies within the ISS Group		5,935	3,590
Deferred tax assets	10	9	17
Non-current assets		29,372	27,681
Receivables from companies within the ISS Group		4,097	5,604
Other receivables		84	181
Cash and cash equivalents		2,734	1,173
Current assets		6,915	6,958
Total assets		36,287	34,639
EQUITY AND LIABILITIES			
Total equity		5,016	5,840
Loans and borrowings	11	17,119	14,796
Provisions		57	57
Non-current liabilities		17,176	14,853
Loans and borrowings	11	13,675	13,519
Other liabilities		420	427
Current liabilities		14,095	13,946
Total liabilities		31,271	28,799
Total equity and liabilities		36,287	34,639

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

1 JANUARY – 31 DECEMBER

2017

DKK million

	Share capital	Retained earnings	Total
Equity at 1 January	180	5,660	5,840
Net profit	-	376	376
Comprehensive income	-	376	376
Dividends paid to the shareholder	-	(1,200)	(1,200)
Transactions with the owner	-	(1,200)	(1,200)
Changes in equity	-	(824)	(824)
Equity at 31 december	180	4,836	5,016

2016

Equity at 1 January	180	4,406	4,586
Net profit	-	3,439	3,439
Comprehensive income	-	3,439	3,439
Dividends paid to the shareholder	-	(2,185)	(2,185)
Transactions with the owner	-	(2,185)	(2,185)
Changes in equity	-	1,254	1,254
Equity at 31 December	180	5,660	5,840

1 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of ISS Global A/S have been prepared in accordance with IFRS as adopted by the EU and additional requirements of the Danish Financial Statements Act. In addition, the financial statements have been prepared in compliance with the IFRSs issued by the IASB.

CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies are described in section 1 in the Group's consolidated financial statements.

ACCOUNTING POLICIES

With the exception of the items described below, the accounting policies for ISS Global A/S are identical to the Group's accounting policies, which are described in the notes to the consolidated financial statements.

Income from subsidiaries and joint ventures comprises dividends, impairment losses, reversal of prior years' impairment losses and gains and losses from divestment and liquidation of subsidiaries and joint ventures. Dividends are recognised in the income statement in the financial year in which the dividend is declared. If dividends declared exceed the total comprehensive income for the year, an impairment test is performed.

Investments in subsidiaries and joint ventures are measured at cost, which comprises consideration transferred measured at fair value and any directly attributable transaction costs. If there is indication of impairment, an impairment test is performed as described in the accounting policies in note 4.8 to the Group's consolidated financial statements. Where the recoverable amount is lower than the cost, investments are written down to this lower value. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the recoverable amount does not exceed the original cost.

Tax As required by Danish legislation ISS Global A/S is jointly taxed with all Danish resident subsidiaries. Joint taxation contributions to/from jointly taxed companies are recognised in the income statement in Income taxes and in the statement of financial position in Receivables from or Debt to companies within the ISS Group.

Companies which utilise tax losses in other companies pay joint taxation contribution to ISS A/S (the administration company) equivalent to the tax base of the tax losses utilised. Companies whose tax losses are utilised by other companies receive joint taxation contributions from ISS A/S equivalent to the tax base of the tax losses utilised (full absorption).

2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Significant accounting estimates and judgements relating to the applied accounting policies for ISS Global A/S are the same as for the Group to the extent of similar accounting items, see section 1 in the Group's consolidated financial statements for a description. The specific risks for ISS Global A/S are described in the notes to the financial statements of the parent company.

Investments in subsidiaries and joint ventures are tested for impairment when there is an indication that the investments may be impaired. The assessment of whether there is an indication of impairment is based on both external and internal sources of information such as performance of the subsidiaries and joint ventures, significant decline in market values etc.

3 REVENUE

Revenue relates to rendering of services managed by the Global Corporate Clients organisation and has been determined based on the stage of completion method.

4 OTHER OPERATING INCOME AND EXPENSES, NET

In 2016, a provision of DKK 57 million was recognised related to the guarantee issued by ISS Global A/S to its subsidiary ISS Lending A/S to cover losses on an intercompany receivable with ISS Brazil. There was no change in the assessed exposure in 2017.

5 FEES TO AUDITORS

DKK million	2017	2016
Statutory audit	(0)	(0)
Other assurance services	(1)	-
Total	(1)	(0)

Other assurance services comprised work related to the issuance of bonds under the EMTN programme.

6 OTHER EXPENSES

DKK million	2017	2016
Acquisition costs	(2)	-
Other expenses	(2)	-

7 FINANCIAL INCOME AND EXPENSES

DKK million	2017	2016
Interest income on cash and cash equivalents	5	0
Interest income from companies within the ISS Group	235	200
Foreign exchange gains	-	21
Financial income	240	221
Interest expenses on loans and borrowings	(307)	(270)
Interest expenses to companies within the ISS Group	(67)	(42)
Amortisation of financing fees	(32)	(34)
Refinancing	(27)	-
Bank fees	(4)	(2)
Foreign exchange losses	(26)	-
Financial expenses	(463)	(348)

Interest expenses on loans and borrowings The increase in interest expenses in 2017 was mainly a result of higher average net debt and higher cost of debt due to the issuance of bonds under the EMTN programme in August 2017.

Refinancing In connection with the repayment of Term Loan B (EUR 300 million) in August 2017 and refinancing of the Revolving Credit Facility in November 2017, unamortised financing fees of DKK 27 million were expensed.

Foreign exchange gains and losses mainly related to exchange rate movements on intercompany loans to foreign subsidiaries as well as on external loans and borrowings denominated in currencies other than DKK. In addition, fair value adjustments of currency swaps were included.

8 INCOME TAXES

DKK million	2017	2016
Current tax	(10)	6
Deferred tax	(8)	1
Adjustments relating to prior years, net	(8)	(27)
Income taxes	(26)	(20)

EFFECTIVE TAX RATE

In %	2017	2016
Statutory income tax rate	22.0 %	22.0 %
Income from subsidiaries and joint ventures	(32.5)%	(23.1)%
Non-tax deductible expenses less non-taxable income	14.9 %	0.9 %
Adjustments relating to prior years, net	2.0 %	0.8 %
Effective tax rate	6.4 %	0.6 %

Non-tax deductible expenses less non-taxable income includes the impact from interest limitation tax rules and non-deductible withholding taxes.

9 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

DKK million	2017	2016
Cost at 1 January	29,557	29,345
Additions ¹⁾	243	212
Disposals	(2)	-
Cost at 31 December	29,798	29,557
Revaluation at 1 January	(5,483)	(5,988)
Impairment losses	(986)	(142)
Reversal of prior years' impairment losses	99	647
Revaluation at 31 December	(6,370)	(5,483)
Carrying amount at 31 December	23,428	24,074

¹⁾ In 2017, DKK 145 million was related to non-cash transactions.

INCOME FROM SUBSIDIARIES AND JOINT VENTURES

DKK million	2017	2016
Received dividends	1,477	3,119
Proceeds from sale and liquidation of subsidiaries and joint ventures	6	3
Carrying amount of disposed subsidiaries and joint ventures	(2)	-
Impairment losses	(986)	(142)
Reversal of prior years' impairment losses	99	647
Income from subsidiaries and joint ventures	594	3,627

9 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

ADDITIONS

In 2017, ISS Global A/S made capital increases in their subsidiaries in Argentina of DKK 74 million and in Uruguay of DKK 7 million.

DISPOSALS

In 2017, two subsidiaries in Singapore were liquidated which resulted in a net liquidation proceed of DKK 6 million.

IMPAIRMENT LOSSES AND REVERSAL OF PRIOR YEARS' IMPAIRMENT LOSSES

The recoverable amount of investments in subsidiaries and joint ventures is determined on the basis of the value-in-use adjusted for net debt. Value-in-use applied in the impairment test is equal to value-in-use established for the Group, see note 4.8 to the Group's consolidated financial statements.

In the table below the recognised impairment losses for 2017 are specified:

DKK million	Impairment loss	Recoverable amount	Applied discount rate, net of tax
ISS Lending A/S	(730)	4,067	-
Argentina	(140)	31	-
ISS Holding France A/S	(72)	1,579	-
Uruguay	(44)	20	-
Impairment losses	(986)		

The recoverable amount of ISS Lending A/S decreased significantly in connection with the distribution of dividend of DKK 1,285 million in 2016 and thus the investment of DKK 4.8 billion is considered impaired by DKK 730 million. Since ISS Lending A/S is a holding company, the recoverable amount is based on ISS Lending A/S's equity as at 31 December 2017.

Argentina and Uruguay were during 2017 classified as held for sale and discontinued operations and consequently remeasured at fair value less cost to sell. This resulted in impairment losses of DKK 140 million for Argentina and DKK 44 million for Uruguay.

In 2016, the impairment loss of DKK 142 million related to Brazil of DKK 54 million (discount rate, net of tax 18.8%), the Netherlands of DKK 51 million (discount rate, net of tax 8.1%) and Hungary of DKK 37 million (discount rate, net of tax 11.1%).

In the table below reversal of prior years' impairment losses for 2017 are specified:

DKK million	Reversal of prior years' impairment losses	Recoverable amount	Applied discount rate, net of tax
Mexico	46	328	14.9%
South Eastern (SE) Europe Cluster	37	728	9.4%
Greece	16	16	-
Reversal of prior years' impairment losses	99		

The reversal for Mexico is driven by the combined impact from an increase in the value-in-use following significant contract wins and an improvement in the net debt position. Prior years' impairment losses recognised for Hungary have been fully reversed in 2017 following the merger of Hungary and other South Eastern Europe countries into one CGU. In connection with the divestment of ISS Greece, the investment was remeasured to fair value less costs to sell as at 31 December 2017. This resulted in the reversal of prior years' impairment losses of DKK 16 million.

In 2016, reversal of prior year's impairment losses amounted to DKK 647 million and related to France of DKK 580 million, Mexico of DKK 48 million and Australia & New Zealand of DKK 19 million.

SUBSIDIARIES AND JOINT VENTURES

For a list of significant directly owned subsidiaries and joint ventures, see note 17, Subsidiaries and joint ventures.

10 DEFERRED TAX

DEVELOPMENT IN DEFERRED TAX

DKK million

	2017	2016
Deferred tax assets at 1 January	17	16
Adjustments relating to prior years, net	-	1
Tax on profit before tax	(8)	0
Deferred tax assets at 31 December	9	17

Deferred tax assets relate to loans and borrowings. ISS Global A/S has no recognised or unrecognised deferred tax assets regarding tax losses carried forward.

11 LOANS AND BORROWINGS

DKK million

	2017	2016
Issued bonds	17,052	12,576
Bank loans	(26)	2,198
Debt to companies within the ISS Group	13,762	13,541
Derivatives	6	-
Total	30,794	28,315
Non-current liabilities	17,119	14,796
Current liabilities	13,675	13,519
Loans and borrowings	30,794	28,315
Cash and cash equivalents and other financial items ¹⁾	(12,766)	(10,375)
Net debt	18,028	17,940

¹⁾ Includes certain receivables from companies within the ISS Group of DKK 10,032 million (2016: DKK 9,188 million) and positive value of currency swaps of DKK 0 million (2016: DKK 14 million). The average interest rate related to receivables from companies within the ISS Group was 1.91% (2016: 1.56%).

CASH FLOW FROM FINANCING ACTIVITIES

DKK million

	2017	2016
Loans and borrowings at 1 January	28,315	29,385
Foreign exchange adjustments	(157)	(108)
Proceeds from bonds	4,439	-
Repayment of senior facilities	(2,230)	-
Other financial payments, net	140	(159)
Net proceeds from debt to companies within the ISS Group	464	(1,019)
Other non-cash movements	(177)	216
Loans and borrowings at 31 December	30,794	28,315

11 LOANS AND BORROWINGS (CONTINUED)

REFINANCING

In August 2017, ISS Global A/S issued a 10-year EUR bond for a principal amount of EUR 600 million maturing in August 2027. The notes were issued under the company's EUR 3 billion EMTN programme. The net proceeds of the offering were used for repayment of EUR 300 million Term Loan B and for general corporate purposes.

In November 2017, we also entered into a new senior unsecured Revolving Credit Facility of EUR 1,000 million with a group of 15 banks. The facility matures in November 2022 and replaces the EUR 850 million Revolving Credit Facility maturing in February 2019. The new Revolving Credit Facility is not subject to financial covenants and the drawn margin is determined semi-annually based on a leverage grid.

FAIR VALUE

The fair value of loans and borrowings amounted to DKK 31,324 million (2016: DKK 28,927 million). The fair value of bonds is based on the quoted market price on the Luxembourg Stock Exchange and measurement is categorised as Level 1 in the fair value hierarchy. For the remaining part of the loans and borrowings fair value is equal to the nominal value as illustrated in note 14, Financial risk management.

FINANCING FEES

In 2017, financing fees amounting to DKK 51 million (2016: DKK 2 million) have been recognised in loans and borrowings while financing fees of DKK 59 million (2016: DKK 34 million) have been amortised and recognised in financial expenses. Accumulated financing fees recognised in loans and borrowings on 31 December 2017 amounted to DKK 97 million (2016: DKK 105 million).

12 REMUNERATION TO THE BOARD OF DIRECTORS AND THE EXECUTIVE GROUP MANAGEMENT

Key management personnel of the Group as defined in note 6.1 to the Group's consolidated financial statements are also considered key management personnel of the parent.

Remuneration to key management personnel is specified in note 6.1 to the Group's consolidated financial statements.

13 CONTINGENT LIABILITIES

SENIOR FACILITY AGREEMENT

ISS Global A/S guarantees the borrowings under the unsecured senior facility agreement.

COMMITMENT VEHICLE LEASES

Leasing of cars in the Group is primarily entered under an international car fleet lease framework agreement which is valid until end 2018. The framework agreement contains a quarterly option for the Group to terminate the fleet of an entire country or the entire fleet under the framework agreement with four weeks notice subject to payment of a termination amount. The majority of the underlying agreements have a lifetime duration of 3-5 years. ISS Global A/S has issued a guarantee for all payments from companies within the ISS Group. The total contingent liability amounted to DKK 904 million as per 31 December 2017 (2016: DKK 1,113 million).

PARENT COMPANY GUARANTEES

ISS Global A/S has credit facilities in place totalling DKK 371 million (2016: DKK 300 million) which can be used to issue guarantees for subsidiaries' local bank overdrafts. As per 31 December 2017, DKK 118 million was utilised (2016: DKK 182 million). Furthermore, ISS Global A/S has issued parent guarantees and performance bonds for various subsidiaries' current and future financial liabilities and obligations under customer contracts amounting to DKK 7.2 billion (2016: DKK 2.9 billion). These financial liabilities are primarily local bank overdrafts, bank guarantee lines and pension liabilities.

WITHHOLDING TAXES

ISS Global A/S is jointly taxed with all Danish resident subsidiaries. ISS Global A/S and the companies within the joint taxation have a joint and unlimited liability of Danish corporate and withholding taxes related to dividends, interests and royalties. As per 31 December 2017 Danish corporate and withholding taxes within the joint taxation amounted to DKK 0 million (2016: DKK 0 million). Any subsequent adjustments to Danish withholding taxes may change this joint and unlimited liability.

VAT

ISS Global A/S and certain Danish Group companies are jointly registered for VAT and are jointly liable for the payment hereof.

14 FINANCIAL RISK MANAGEMENT

ISS Global A/S's financial risks are managed centrally by Group Treasury based on the treasury policy approved by the Board of Directors. The objectives, policies and processes for measuring and managing the exposure to financial risks is described in note 5.4 to the Group's consolidated financial statements. The risks specific to ISS Global A/S are described below.

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments, primarily bank loans and issued bonds. ISS Global A/S's exposure towards interest rates is illustrated below, where a breakdown of ISS Global A/S's loans and borrowings in floating and fixed rates is provided. The interest rate exposure to floating interest rates is primarily in EUR.

					2017	2016
DKK million	Nominal interest rate	Currency	Year of maturity	Nominal value	Carrying amount	Carrying amount
Issued bonds (fixed interest rate)						
EMTNs (EUR 700 million)	1.125%	EUR	2020	5,211	5,197	5,183
EMTNs (EUR 500 million)	1.125%	EUR	2021	3,722	3,708	3,697
EMTNs (EUR 500 million)	2.125%	EUR	2024	3,722	3,703	3,696
EMTNs (EUR 600 million)	1.500%	EUR	2027	4,467	4,444	-
				17,122	17,052	12,576
Bank loans (floating interest rate)						
Senior Unsecured Facilities:						
Term Facility B (EUR 300 million)	Euribor + 0.85%	EUR	2019	-	-	2,220
Revolving Credit Facility (EUR 850 million)	Libor + 0.85%	Multi	2019	-	-	(22)
Revolving Credit Facility (EUR 1,000 million) ¹⁾	Libor + 0.45%	Multi	2022	0	(26)	-
				0	(26)	2,198
Intra-group (floating interest rate)						
Debt to companies within the ISS Group ²⁾	-	Multi	2019	13,762	13,762	13,541
				13,762	13,762	13,541

¹⁾ The current margin of 0.45% will decrease to 0.35% if leverage is below 2.0x and increase to 0.60% if leverage is above 2.5x. At 31 December 2017, leverage was 2.2x. In addition, a utilisation fee applies. For utilisation up to 33%, the fee is 0.10%, for utilisation between 33% and 66%, the fee is 0.20%, and for utilisation above 66%, the fee is 0.30%.

²⁾ The majority of the loans are committed until 2019, but classified as current as they are used in the Group's normal operating cycle.

SENSITIVITY ANALYSIS

It is estimated that a general increase in relevant interest rates of 1%-point would have decreased profit for the year and other comprehensive income by DKK 26 million (2016: decreased both items by DKK 52 million).

The estimate was based on loans and borrowings with floating interest rates, i.e. disregarding cash and cash equivalents, as the level at 31 December is typically the highest in the year and not a representative level for the purpose of this analysis. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

14 FINANCIAL RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

Liquidity risk results from ISS Global A/S's potential inability or difficulty in meeting the contractual obligations associated with its financial liabilities due to insufficient liquidity.

LIQUIDITY RESERVES

ISS Global A/S's liquidity reserves mainly consist of liquid funds (cash and cash equivalents less not readily available or restricted cash) and unused credit facilities. As at 31 December 2017, ISS Global A/S's liquid reserves consisted of readily available liquid funds of DKK 2,734 million (2016: DKK 1,173 million) and unused revolving credit facilities of DKK 7,210 million (2016: DKK 6,005 million) where the majority is available for drawing until 3 November 2022.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

The contractual maturities of financial liabilities, based on undiscounted contractual cash flows, are shown below. The undiscounted contractual cash flows include expected interest payments, estimated based on market expectations at the reporting date.

The risk implied from the values in the maturity table below reflects the one-sided scenario of cash outflows only.

DKK million	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
2017								
Loans and borrowings ¹⁾	17,032	18,576	252	247	5,401	3,869	146	8,661
Debt to companies within the ISS Group	13,762	13,843	13,843	-	-	-	-	-
Other financial liabilities	280	366	193	35	43	36	59	-
Total financial liabilities	31,074	32,785	14,288	282	5,444	3,905	205	8,661
2016								
Loans and borrowings ¹⁾	14,774	15,879	204	194	2,412	5,326	3,797	3,946
Debt to companies within the ISS Group	13,541	13,707	13,707	-	-	-	-	-
Other financial liabilities	245	254	183	71	-	-	-	-
Total financial liabilities	28,560	29,840	14,094	265	2,412	5,326	3,797	3,946

¹⁾ Excluding debt to companies within the ISS Group.

14 FINANCIAL RISK MANAGEMENT (CONTINUED)

CURRENCY RISK

Currency risk is the risk that arises from changes in exchange rates and affects ISS Global A/S's result or value of financial instruments.

To a limited extent ISS Global A/S is exposed to currency risk on loans and borrowings (external) that are denominated in currencies other than DKK as well as intercompany loans to foreign subsidiaries as these are typically denominated in the functional currency of the subsidiary.

At 31 December 2017, 91.5% (2016: 89.6%) of ISS Global A/S's loans and borrowings were denominated in EUR or DKK.

IMPACT ON THE FINANCIAL STATEMENTS

Fluctuations in foreign exchange rates will affect the value of loans and borrowings as well as the income statement as funding is obtained in various currencies. In 2017, changes in foreign exchange rates related to loans and borrowings resulted in a gain of DKK 157 million (2016: gain of DKK 108 million), which was almost offset by the effect of currency swaps. The primary impact is derived from loans and borrowings in NOK and CHF, which depreciated 7.5% and 8.1%, respectively, against DKK in 2017.

SENSITIVITY ANALYSIS

It is estimated that a change in relevant foreign exchange rates would have increased/(decreased) net profit and other comprehensive income by the amounts shown below. The analysis is based on the ISS Group's internal monitoring of currency exposure on loans and borrowings, cash and cash equivalents and intercompany loans. Further, the analysis is based on foreign exchange rate variances that is considered to be reasonably possible at the reporting date and that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

DKK million	Currency exposure (nominal value)	Currency swaps (contractual value)	Total exposure	Sensitivity		
				Increase in foreign ex- change rates	Net profit	Other com- prehensive income
2017						
EUR/DKK	(15,100)	7,429	(7,671)	1%	(77)	(77)
Other/DKK	1,689	(1,691)	(2)	10%	(0)	(0)
Total	(13,411)	5,738	(7,673)			
2016						
EUR/DKK	(14,215)	5,032	(9,183)	1%	(92)	(92)
Other/DKK	(142)	163	21	10%	2	2
Total	(14,357)	5,195	(9,162)			

15 RELATED PARTIES

In addition to the description in note 7.5 to the Group's consolidated financial statements of related parties and transactions with these, related parties of ISS Global A/S comprise ISS World Services A/S and its subsidiaries, associates and joint ventures, see note 7.10 to the Group's consolidated financial statements.

In 2017, ISS Global A/S had the following transactions with other related parties, which were all made on market terms:

- ISS Global A/S received/paid interest from/to companies within the ISS Group, see note 7, Financial income and expenses. Receivables from companies within the ISS Group are disclosed in the statement of financial position. Debt to companies within the ISS Group is disclosed in note 11, Loans and Borrowings.
- ISS Global A/S paid joint taxation contribution equal to 22% of taxable income to jointly taxed Danish resident subsidiaries.
- ISS Global A/S purchased DKK 0 million (2016: DKK 32 million) of group internal receivables from ISS Lending A/S.
- ISS Global A/S received dividends in total of DKK 1,477 million (2016: DKK 3,119 million) from companies within the ISS Group, see note 9, Investments in subsidiaries and joint ventures.
- ISS Global A/S increased the share capital in two subsidiaries by DKK 81 million (2016: DKK 212 million), see note 9, Investments in subsidiaries and joint ventures.
- ISS Global A/S paid dividends of DKK 1,200 million (2016: DKK 2,185 million) to ISS World Services A/S.

16 NEW STANDARDS AND INTERPRETATIONS NOT YET IMPLEMENTED

New standards and interpretations not yet implemented are described in note 7.9 in the Group's consolidated financial statements.

17 SUBSIDIARIES AND JOINT VENTURES

SIGNIFICANT DIRECTLY OWNED SUBSIDIARIES AND JOINT VENTURES

ISS Facility Services S.R.L.	Argentina	90%
ISS Argentina S.A.	Argentina	60%
ISS Facility Services Australia Pty Ltd.	Australia	100%
Pacific Invest December 2004 Pty Ltd.	Australia	100%
ISS Austria Holding GmbH	Austria	100%
ISS N.V.	Belgium	100%
ISS Sulamericana Brasil Ltda.	Brazil	100%
ISS Facility Services Sdn. Bhd.	Brunei	100%
ISS Chile S.A.	Chile	100%
ISS Greater China Ltd.	China and Hong Kong	100%
ISS Facility Services s.r.o.	Czech Republic	100%
ISS Facility Services A/S	Denmark	100%
ISS Global Management A/S	Denmark	100%
ISS Holding France A/S	Denmark	100%
ISS Lending A/S	Denmark	100%
Signal Arkitekter ApS	Denmark	51%
ISS Holding OÜ	Estonia	100%
ISS Palvelut Holding Oy	Finland	100%
ISS Facility Services GmbH	Germany	100%
ISS Facility Services S.A.	Greece	88%
ISS Facility Services Kft.	Hungary	100%
ISS Facility Services (India) Pvt. Ltd.	India	100%
PT ISS Indonesia	Indonesia	100%
PT ISS Parking Management	Indonesia	100%
PT ISS Catering Services	Indonesia	49%
ISS Ireland Holding Ltd.	Ireland	100%
ISS Facility Services S.r.l.	Italy	100%
Nihon ISS KK	Japan	100%
ISS Facility Services Sdn. Bhd.	Malaysia	30%
ISS Centro América, S de RL de CV	Mexico	100%
ISS Holding Nederland B.V.	Netherlands	100%
ISS Holdings NZ Ltd.	New Zealand	100%
ISS Holding AS	Norway	100%
ISS Facility Services Phils., Inc.	Philippines	100%
ISS Facility Services Sp. Z.o.o.	Poland	100%
ISS Facility Services, Lda.	Portugal	100%
3D Romania S.A.	Romania	100%
FS East Oy	Russia	100%
ISS Asia Pacific Pte. Ltd.	Singapore	100%
ISS Facility Services Pte. Ltd.	Singapore	100%
ISS Facility Services spol s r.o.	Slovakia	100%
ISS Facility Services d.o.o.	Slovenia	100%
ISS Facility Services (Pty) Limited	South Africa	100%
Integrated Service Solutions S.L.	Spain	100%
ISS Abans Environmental Services (PT) Ltd.	Sri Lanka	50% ¹⁾
ISS Facility Services Holding AB	Sweden	100%
ISS Holding AG	Switzerland	100%
ISS Facility Services Co., Ltd.	Thailand	100%
ISS Tesis Yönetim Hizmetleri A.Ş.	Turkey	90%
ISS UK Holding Ltd.	United Kingdom	100%
ISS Uruguay S.A.	Uruguay	100%

¹⁾ Joint venture

MANAGEMENT STATEMENT

COPENHAGEN, 9 MARCH 2018

The Board of Directors and the Managing Director have today discussed and approved the annual report of ISS Global A/S for the financial year 2017.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the Parent company financial statements give a true and fair view of the Group's and the Parent company's financial position at 31 December 2017 and of the results of the Group's and the Parent company's operations and cash flows for the financial year 1 January – 31 December 2017.

In our opinion, the Management review includes a fair review of the development in the Group's and the Parent company's operations and financial conditions, the results for the year, cash flows and financial position as well as a description of the most significant risks and uncertainty factors that the Group and the parent company face.

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

MANAGING DIRECTOR



Peter Harder Thomsen

BOARD OF DIRECTORS



Jeff Gravenhorst
Chairman



Pierre-François Riolacci



Bjørn Raasteen

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ISS GLOBAL A/S

OPINION

We have audited the consolidated financial statements and the Parent company financial statements (the "financial statements") of ISS Global A/S for the financial year 1 January – 31 December 2017, pp. 34–87 and pp. 88–102, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes, including accounting policies, for the Group as well as for the Parent company. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Parent company at 31 December 2017 and of the results of the Group's and the Parent company's operations and cash flows for the financial year 1 January – 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled

our other ethical responsibilities in accordance with these rules and requirements.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

APPOINTMENT OF AUDITOR

Subsequent to ISS Global A/S' listing of bonds on Bourse de Luxembourg, we were initially appointed as auditors of ISS Global A/S on 1 April 2003. We have been re-appointed annually by resolution of the general meeting for a total consecutive period of fifteen years up to and including the financial year 2017.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2017. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditors' responsibilities for the audit of the financial statements" section of our report, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

VALUATION OF INTANGIBLE ASSETS

The carrying amount of goodwill and customer contracts related to prior years' acquisitions comprise a significant part of the consolidated balance sheet. The cash-generating units in which goodwill and customer contracts are included are impairment tested by Management on an annual basis. The impairment tests are based on Management's estimates of among others future profitability, long-term growth and discount rate. Due to the inherent uncertainty involved in determining the net present value

of future cash flows, we considered these impairment tests to be a key audit matter.

For details on the impairment tests performed by Management reference is made to notes 4.6, 4.7 and 4.8 in the consolidated financial statements.

In response to the identified risks, our audit procedures included, among others, testing the mathematical accuracy of the discounted cash flow model and comparing forecasted profitability to board approved budgets. We evaluated the assumptions and methodologies used in the discounted cash flow model, in particular those relating to the forecasted revenue growth and operating margin, including comparing with historical growth rates. We compared the assumptions applied to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth and discount rates. Further, we evaluated the sensitivity analysis on the assumptions applied. Our audit procedures primarily focused on cash generating units where changes in key assumptions could result in impairment. We further evaluated the disclosures provided by Management in the financial statements compared to applicable accounting standards.

ASSETS AND LIABILITIES HELD FOR SALE

When classifying businesses as held for sale Management makes judgements and estimates, including assessment of impairment of the net assets. Due to the inherent uncertainty involved in classifying and valuation of assets and liabilities held for sale, we considered these balances as a key audit matter.

For details on the assets and liabilities held for sale reference is made to note 4.4 in the consolidated financial statements.

In response to the identified risks, our audit procedures included, among others, agreeing the carrying amounts of the assets held for sale to underlying accounting records, discussing with Management the criteria for classification as held for sale and reading draft agreements where relevant. We considered the fair value assessment made by Management, including assessment of key assumptions applied and evaluation of the explanations provided by comparing key assumptions to market data, where available. We further evaluated the disclosures provided by Management in the financial statements compared to applicable accounting standards.

INCOME TAX EXPOSURES AND VALUATION OF DEFERRED TAX BALANCES

The Group's operations are subject to income taxes in various jurisdictions having different tax legislation. Management makes judgements and estimates

in determining the accrual for income taxes and deferred taxes. Given the inherent uncertainty involved in assessing and estimating the income tax exposures and valuation of deferred tax balances, we considered these balances as a key audit matter.

For details on the income tax and deferred tax balances reference is made to notes 2.4 and 2.5 in the consolidated financial statements and notes 8 and 10 in the Parent company financial statements.

In response to the identified risks, our audit procedures included review of completeness and accuracy of the amounts recognised as income tax and deferred tax, including assessment of correspondence with tax authorities and evaluation of tax exposures as well as write-down of deferred tax assets. In respect of the deferred tax assets recognised in the statement of financial position, we assessed Management's assumptions as to the probability of recovering the assets through taxable income in future years and available tax planning strategies. We further evaluated the disclosures provided by Management compared to applicable accounting standards.

VALUATION OF INVESTMENTS IN SUBSIDIARIES

The investments in subsidiaries comprise a significant part of the balance sheet of the parent company. The valuation of investments in subsidiaries is based on Management's assessment of whether indications or objective evidence of impairment exists. This assessment is based on a review of the net present value of the expected future cash flows generated by the subsidiaries which is determined on the basis of, among others, the expected future profitability, long-term growth and discount rate for each subsidiary. Due to the inherent uncertainty involved in determining the net present value of expected future cash flows, we considered the valuation of investments in subsidiaries to be a key audit matter.

For details on the valuation of investments in subsidiaries reference is made to note 9 in the parent company financial statements.

In response to the identified risks, our audit procedures included, among others, testing the mathematical accuracy of the discounted cash flow model and comparing forecasted profitability to board approved budgets. We evaluated the assumptions and methodologies used in the discounted cash flow model, in particular those relating to the forecasted revenue growth and operating profitability, including comparing with historical growth rates and results. We compared the assumptions applied to externally

derived data as well as our own assessments in relation to key inputs such as projected economic growth and discount rates. Further, we evaluated the sensitivity analysis on the assumptions applied. Our audit procedures primarily focused on investments, where likely changes in key assumptions could result in impairment. We further evaluated the disclosures provided by Management in the parent company financial statements compared to applicable accounting standards.

STATEMENT ON THE MANAGEMENT'S REVIEW

Management's review, pp. 1–33. Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatements of the Management's review.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or

the Parent company or to cease operations, or has no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant

doubt on the Group's and the Parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Parent company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

COPENHAGEN, 9 MARCH 2018

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR-no. 30700228



Michael Groth Hansen

State Authorised

Public Accountant

MNE-no.: mne 33228



Claus Kronbak

State Authorised

Public Accountant

MNE-no.: mne28675