

# ANNUAL REPORT 2019

## ISS GLOBAL A/S

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

Annual report  
1 January – 31 December 2019

Approved at the annual general meeting  
On 14 April 2020

Barbara Fiorini Due  
chairman of the annual general meeting

# CONTENTS

## OVERVIEW

- 3 Key figures
- 4 Outlook

## OUR PERFORMANCE

- 5 Group performance
- 12 Regional performance

## OUR BUSINESS

- 15 Our strategy
- 18 Our people
- 20 Our business risks

## GOVERNANCE

- 22 Corporate governance
- 25 Internal controls relating to financial reporting

## FINANCIAL STATEMENTS

- 27 Consolidated financial statements
- 85 Parent company financial statements
- 100 Management statement
- 101 Independent auditors' report
- 106 Definitions

---

## CORPORATE RESPONSIBILITY REPORT

Our CR report as per section 99a of the Danish Financial Statements Act is available at <https://www.issworld.com/about-iss/our-approach-to-cr/reporting-and-policies>. The report also serves as ISS's communication on progress in implementing the ten principles of the Global Compact.

## REMUNERATION REPORT

<http://inv.issworld.com/iss-remunerationreports>

## 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, a leading, global provider of workplace and facility service solutions, 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. 15–26, are described in the context of the ISS A/S Group.

# KEY FIGURES

DKK million (unless otherwise stated)	2019 <sup>1) 4)</sup>	2018 <sup>4)</sup>	2017 <sup>4)</sup>	2016 <sup>4)</sup>	2015
Revenue	78,572	73,623	73,617	78,699	79,631
Operating profit before other items <sup>2)</sup>	3,867	4,260	4,545	4,968	4,946
Operating margin <sup>2)</sup>	4.9%	5.8%	6.2%	6.3%	6.2%
Operating profit	2,077	1,998	2,911	3,058	3,432
Financial expenses, net	(696)	(583)	(489)	(451)	(662)
Net profit (adjusted) <sup>3)</sup>	1,302	1,798	1,771	2,256	2,367
Net profit/(loss) from continuing operations	809	980	1,839	1,832	1,915
Net profit/(loss) from discontinued operations <sup>4)</sup>	(57)	(886)	(201)	(8)	-
Net profit	752	94	1,638	1,824	1,915
Cash flow from operating activities	1,275	2,653	2,752	2,956	3,133
Addition of right-of-use assets, net	(632)	0	0	0	0
Acquisition of intangible assets and property, plant and equipment, net	(897)	(813)	(770)	(695)	(808)
Free cash flow <sup>5)</sup>	(264)	1,818	1,975	2,287	2,295
Total assets	42,945	42,719	45,906	43,441	44,170
Goodwill	16,513	16,237	18,196	17,537	17,969
Additions to property, plant and equipment	1,371	881	738	647	746
Equity	2,711	3,403	1,956	2,088	2,991
Equity ratio	6.3%	8.0%	4.3%	4.8%	6.8%
Net debt	17,274	12,701	15,676	14,863	14,621
Number of employees end of period	470,806	485,676	488,722	494,038	504,650
Full-time employees	77%	76%	76%	74%	74%
Organic growth	7.1%	3.9%	2.9%	3.4%	4.4%
Acquisitions and divestments, net	(1.2)%	(0.5)%	(6.9)%	(1.3)%	(1.2)%
Currency adjustments	0.8 %	(3.4)%	(2.5)%	(3.2)%	4.2 %
Total revenue growth	6.7%	0.0 %	(6.5)%	(1.2)%	7.4 %

<sup>1)</sup> As of 1 January 2019, the Group has implemented IFRS 16 using the modified retrospective approach. Consequently, comparative figures have not been restated.

<sup>2)</sup> The Group uses Operating profit before other items for the calculations instead of Operating profit. From 2019, operating margin includes restructuring costs, which were previously reported in Other income and expenses, net. Comparative figures have been restated accordingly.

<sup>3)</sup> Excluding Goodwill impairment and Amortisation/impairment of brands and customer contracts.

<sup>4)</sup> In 2019, 2018 and 2017, Argentina, Brazil, Brunei, Chile, the Czech Republic, Estonia, Hungary, Israel, Malaysia, the Philippines, Romania, Slovenia, Slovakia, Thailand and Uruguay are treated as discontinued operations. In 2016, only Argentina and Uruguay were discontinued operations.

<sup>5)</sup> Following the implementation of IFRS 16, we have updated the definition of Free cash flow to include addition of right-of-use assets, net, see Definitions p. 106. Comparative figures have not been restated.

# OUTLOOK

## OUTLOOK 2020

ISS Global A/S is an indirectly, wholly owned subsidiary of ISS A/S and an integrated part of the ISS A/S Group.

On 20 March 2020, ISS A/S announced the withdrawal of the outlook for 2020 as a result of the current elevated global uncertainties on the back of COVID-19. Currently, we are facing negative impacts, but the magnitude remains too uncertain to estimate. Consequently, the outlook for 2020 for ISS A/S and ISS Global A/S is pending further clarification of the market developments and the actual financial impact on our business.

## FOLLOW UP ON OUTLOOK 2019

For our three key financial objectives organic growth, operating margin and free cash flow, we ended 2019 as shown in the table to the right compared to the outlook announced in connection with the Annual Report for 2018 and subsequently in the Q2 Interim Report 2019.

Organic growth was realised in line with our updated guidance following historically strong organic growth in 2019. Operating margin and free cash flow were lower than our guidance mainly due to selective, notable operational challenges as explained in Group performance, p. 5-11. Additionally, free cash flow was significantly reduced due to lower utilisation of factoring.

## DELIVERY ON 2019 OUTLOOK

	Actual 2019	Interim report Q2 2019	Annual report 2018
Organic growth	7.1%	6.5%-7.5%	5%-7%
Operating margin	4.9%	5.8%-5.9%	5.8%-6.0%
Free cash flow (reported)	DKK (0.3) bn	DKK 1.2-1.6 bn	DKK 1.2-1.6 bn
Free cash flow (adjusted)	DKK 1.0 bn	-	-

# GROUP PERFORMANCE

Historically strong organic growth and improving underlying free cash flow, despite selective operational challenges.

## OPERATING RESULTS

**Group revenue** for 2019 was DKK 78.6 billion, an increase of 6.7% compared with 2018. Organic growth was 7.1%, acquisitions and divestments, net reduced revenue by 1.2% and the impact from currency effects increased revenue by 0.8%.

**Organic growth** was driven by generally strong commercial momentum with a high number of key account contract wins, extensions and expansions and by the launch of the Deutsche Telekom contract on 1 July 2019. The retention rate improved to approximately 91% in 2019 (2018: 90%) and 94% for key accounts (2018: 93%). The contribution from projects and above-base work remained solid, albeit with a slow-down towards the end of the year. All regions delivered positive organic growth with double-digit rates in Continental Europe and mid-single digit rates in Northern Europe and Asia & Pacific. Americas also delivered positive growth rates despite revenue reductions on the back of planned exits from small specialised services contracts.

In Continental Europe – in addition to the Deutsche Telekom contract – growth was driven by strong key account growth especially in Turkey, Iberia and the Netherlands as well as price increases in Turkey due to high inflation and continued demand for projects and above-base work in general. Asia & Pacific experienced strong growth in most countries and particularly in Australia due to key account contract launches in the second half of 2018. In Northern Europe, growth was driven by several key account contract launches and expansions in 2018 and 2019 in the UK and Denmark as well as continued demand for projects and above-base work in particular in the UK & Ireland, Finland and Norway. In Americas, growth was driven by key account contract expansions and launches in Food Services and the aviation segment, though partly offset by the planned exits from a number of small specialised services contracts.

**Operating profit before other items** was DKK 3,867 million in 2019 for an operating margin of 4.9% (2018: 5.8%). As announced in the Annual Report 2018, the operating margin now includes restructuring costs (previously reported in Other income and expenses, net). Comparatives have been restated accordingly.

## REVENUE AND ORGANIC GROWTH

DKK million	2019	2018	Organic	Acq./div.	Currency adjustment	Growth 2019
Continental Europe	30,608	28,006	12 %	(3)%	(0)%	9 %
Northern Europe	25,037	24,413	4 %	(1)%	(0)%	3 %
Asia & Pacific	13,739	12,725	5 %	-	3 %	8 %
Americas	8,459	7,847	2 %	-	6 %	8 %
Other countries	760	667	16 %	(5)%	3 %	14 %
Corporate / eliminations	(31)	(35)	-	-	-	-
<b>Total</b>	<b>78,572</b>	<b>73,623</b>	<b>7.1 %</b>	<b>(1.2)%</b>	<b>0.8 %</b>	<b>6.7 %</b>

## OPERATING PROFIT <sup>1)</sup> AND MARGIN

DKK million	2019		2018		Organic	Acq./div.	Currency adjustment	Growth 2019
Continental Europe	1,534	5.0 %	1,725	6.2 %	(13)%	1 %	1 %	(11)%
Northern Europe	1,119	4.5 %	1,538	6.3 %	(27)%	(0)%	-	(27)%
Asia & Pacific	753	5.5 %	847	6.7 %	(14)%	-	3 %	(11)%
Americas	448	5.3 %	228	2.9 %	87 %	-	10 %	97 %
Other countries	38	5.0 %	(1)	(0.1)%	-	-	-	-
Corporate / eliminations	(25)	(0.0)%	(77)	(0.1)%	-	-	-	-
<b>Total</b>	<b>3,867</b>	<b>4.9 %</b>	<b>4,260</b>	<b>5.8 %</b>	<b>(10.5)%</b>	<b>0.8 %</b>	<b>0.5 %</b>	<b>(9.2)%</b>

<sup>1)</sup> Before other items.

Although operating profit was supported by the strong growth, ongoing productivity improvement plans and the confirmed turnaround of our business in the US and in Sweden, we faced selective but notable operational challenges in regards to delay in the net benefits from the ongoing reorganisation of our operations in France, as well as two loss-making contracts in Hong Kong and in Denmark. Furthermore, the launch of the announced transformational investment programme (2019-2021) impacted the performance. In addition, a provision of DKK 150 million was recognised to cover risks identified through changed systems in the UK and the onerous contract in Hong Kong.

In Northern Europe, Denmark reported a shortfall due to one loss-making contract following a challenging transition and misalignment of expectations. Additionally, the margins decreased in the UK, where we continued to invest in consolidation, centralisation and automation (one of our transformational projects) as well as due to a provision related to risks identified through changed systems. In Continental Europe, margin was adversely impacted by operational inefficiencies in France and tough comparator performance in Germany due to a one-off settlement in 2018. In Asia & Pacific, the decrease was mainly due to Hong Kong following a mispriced loss-making contract and political turmoil. These decreases were only partly compensated by Americas showing solid improvement driven by turnaround initiatives, efficiency improvements and continued accretive growth in Food Services.

**Other income and expenses, net** was an expense of DKK 93 million (2018: net expense of DKK 125 million), predominantly due to divestment-related costs in the Netherlands and the UK.

**Goodwill impairment** was DKK 304 million (2018: DKK 829 million) mainly due to divestment of the Hygiene & Prevention business in France.

**Operating profit** was DKK 2,077 million (2018: DKK 1,998 million). The improvement was due to lower goodwill impairment and amortisation of customer contracts, partly offset by the increase in royalty and the decrease in operating profit before other items.

**Financial income and expenses, net** was an expense of DKK 696 million (2018: DKK 583 million). The increase was mainly due to the implementation of IFRS 16 leading to additional DKK 79 million being presented as interest expenses in 2019.

In addition, the early refinancing of the 2020 EMTNs in June resulted in higher gross debt until the 2020 EMTNs were repaid in October. Furthermore, interest expenses increased due to higher average net debt during 2019. This was partly offset by an immaterial foreign exchange impact in 2019 compared with a loss of DKK 31 million in 2018. The increase in interest expenses related to the early refinancing was largely of a temporary nature.

**The effective tax rate** for 2019 was 32.9% (2018: 20.7%) calculated as Income taxes (adjusted) of DKK 591 million divided by Profit before tax (adjusted) of DKK 1,793 million. The effective tax rate was negatively impacted by a valuation allowance on deferred tax assets in France. Adjusted for this valuation allowance, the effective tax rate was 25.9%.

**Net profit (adjusted)** was DKK 1,302 million (2018: DKK 1,798 million). The decrease was mainly driven by lower operating profit, higher financial expenses, net, and higher income tax.

**Net profit from discontinued operations** was a loss of DKK 57 million (2018: a loss of DKK 886 million), including an impairment loss of DKK 157 million mainly due to the divestment of Israel and an accounting gain of DKK 115 million related to recycling of accumulated foreign exchange gains related to divestments. Please refer to note 3.1 in the consolidated financial statements for further details.

**Net profit** was DKK 752 million (2018: DKK 94 million). The improvement was mainly due to lower goodwill impairment and amortisation of customer contracts and improved net profit from discontinued operations, partly offset by lower operating profit before other items, higher financial expenses, net and higher income taxes.

## EFFICIENCY PROGRAMME

As a consequence of our disappointing performance in 2019 and having aligned and simplified the country organisations over a number of years, we have in November 2019 launched an efficiency programme targeting corporate cost savings at ISS A/S Group level. Through prioritisation and selective postponement of projects together with people changes, the programme targets around DKK 400 million in combined savings across both operating expenses and capital expenditure in the ISS A/S Group.

## 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 key accounts as well as regional and country key accounts. In total, key accounts represented 63% of Group revenue in 2019 (2018: 59%), including Global Key Accounts representing 16% of Group revenue (2018: 14%).

Revenue from key accounts grew organically by 11.0% to DKK 49.2 billion, significantly supported by the launch of the Deutsche Telekom contract on 1 July, the single-biggest contract in ISS history. The launch was on time and on all sites and the stabilisation following the launch is progressing as expected. The operating margin in the second half of 2019 has been in line with expectations.

In addition to Deutsche Telekom, growth was driven by contracts launched in 2018, primarily with an international food and beverage company and a company in the Industry & Manufacturing segment. Furthermore, the start-up of the new contract with a technology service company as well as the expansion of the Barclays contract and the conversion and expansion of the Vattenfall contract into a global key account contributed to the growth. We also experienced solid demand for non-portfolio services across our key account contracts.

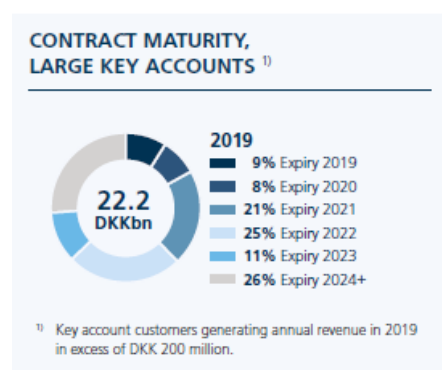
Furthermore, a large number of contracts was extended and expanded as illustrated in the contract overview on next page supporting the high key account growth in the year.

As previously announced, our global contract with Novartis with an annual revenue of around DKK 2.0 billion expired on 31 December 2019. Service delivery for around DKK 0.5 billion will be retained, leading to a net revenue loss of around DKK 1.5 billion. The expected annualised first-year net negative margin impact, including exit-related costs, remains 0.1-0.2%-point on Group margin.

## CONTRACT MATURITY

Our revenue base consists of a mix of yearly contracts, which are renewed tacitly, and thousands of multi-year contracts, the majority of which have an initial term of three to five 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 91% (2018: 90%) and 94% for key accounts (2018: 93%). 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 helps illustrate those contracts which, individually, may have a visible impact on the Group's future revenue development. This analysis is based on all key account customers generating annual revenue in 2019 in excess of DKK 200 million.

In 2019, large key account contracts generated revenue of approximately DKK 22.2 billion, or 28.2% of Group revenue (based on realised revenue in 2019).



As illustrated in the chart above, going into 2020 only Novartis has been lost and customer contracts representing annual revenue of DKK 2.0 billion (2.5% of Group revenue) are up for renewal in 2020.

Please note, that the analysis only shows the maturity of existing customer contracts and not the impact from expansion of existing contracts or new contracts, which have been signed but are yet to commence.



KEY CONTRACT DEVELOPMENTS	COUNTRIES	SEGMENT	TERM	EFFECTIVE DATE
<b>WINS</b>				
Public Administration Company	Iberia	Public Administration	1 year	Q3 2019
The Danish Building and Property Agency	Denmark	Public Administration	7 years	Q4 2019
Hong Kong Airport Authority	Hong Kong	Public Administration	3 years	Q1 2020
<b>EXTENSIONS/EXPANSIONS</b>				
CITI Americas	Mexico	Business Services & IT	5 years	Q1 2019
Santander	UK	Business Services & IT	5 years	Q2 2019
Singapore General Hospital	Singapore	Healthcare	5 years	Q2 2019
Food and beverage company <sup>1)</sup>	Global	Industry and Manufacturing	5 years	Q2 2019
International bank	Italy	Business Services & IT	5 years	Q2 2019
Danske Bank <sup>1)</sup>	Global	Business Services & IT	3 years	Q2 2019
National University Health Systems	Singapore	Healthcare	3 years	Q2 2019
Roy Hill Holdings	Australia	Energy and Resources	3 years	Q2 2019
Financial services company	Spain	Business Services & IT	5 years	Q3 2019
International manufacturing company <sup>1)</sup>	Global	Industry and Manufacturing	5 years	Q3 2019
Global professional services company	Nordic	Business Services & IT	5 years	Q4 2019
International Bank	Switzerland	Business Services & IT	5 years	Q4 2019
Brisbane Airport	Asia & Pacific	Transportation and storage	3 years	Q4 2019
Hotel chain	Norway	Hotel, Leisure & Entertainment	5 years	Q1 2020
Energy and resource company	Germany	Energy and Resources	2 years	Q1 2020
Vattenfall <sup>1)</sup>	Germany	Industry and Manufacturing	2 years	Q1 2020
Foreign Commonwealth Office	Asia & Pacific	Business Services & IT	1 year	Q1 2020
IT and telephone service provider	Spain	Business Services & IT	5 years	Q1 2020
Lewisham and Greenwich NHS Trust	UK	Healthcare	7 years	Q1 2020
<b>LOSSES/REDUCTIONS</b>				
Novartis <sup>1)</sup>	Global	Pharmaceuticals	-	Q1 2020
Norwegian Defence	Norway	Public Administration	-	Q1 2020
ICA	Sweden	Retail and Wholesale	-	Q4 2019

<sup>1)</sup> Global key account.

## FREE CASH FLOW

Our ability to manage the capital intensity required to operate, grow and improve our business is paramount and driving strong cash flows remains a key priority for ISS. As previously communicated, we have updated the definition of free cash flow following the implementation of IFRS 16 to include additions and disposals of leased assets.

In 2019, we generated nominal negative free cash flow of DKK 264 million (2018: positive DKK 1,818 million), which was heavily impacted by our decision to tighten our principles for utilisation of factoring, thus driving a significant reduction hereof. Adjusted for the variation in utilisation of factoring, our free cash flow improved by DKK 718 million in 2019 to DKK 991 million (2018: DKK 273 million).

## FREE CASH FLOW

DKK million	2019	2018
Cash flow from operating activities	1,275	2,653
Acquisition of intangible assets and property, plant and equipment	(935)	(894)
Disposal of intangible assets and property, plant and equipment	38	81
Acquisition of financial assets, net <sup>1)</sup>	(10)	(22)
Addition of right-of-use assets, net <sup>2)</sup>	(632)	-
<b>Free cash flow (reported)</b>	<b>(264)</b>	<b>1,818</b>
Factoring variation	1,255	(1,545)
<b>Free cash flow (adjusted)</b>	<b>991</b>	<b>273</b>

<sup>1)</sup> Excluding investments in equity-accounted investees.

<sup>2)</sup> See 2.1, Property, plant and equipment and leases in the consolidated financial statements.



This improvement was obtained despite free cash flow in 2019 being impacted by net negative one-offs. Worth noting was substantial headwinds from particularly transition, mobilisation and launch of the Deutsche Telekom contract of approximately DKK 900 million. This was only partly offset by a cash inflow related to a settlement in 2018 of around DKK 300 million and approximately DKK 300 million related to reassessment of extension options of certain leased properties as a result of major contract developments in the year. Other net one-offs were broadly neutral, including among others interest expenses related to early refinancing and tax refunds.

In a business environment with continued customer pressure for longer payment terms, the improvement reflects our general focus on cash flows across the business as well as good progress on cash improvement initiatives such as ensuring timely customer payments and driving cash flow benefits from our supply chain.

**Cash flow from operating activities** amounted to DKK 1,275 million (2018: DKK 2,653 million). The decrease in cash inflow was mainly due to a DKK 2.8 billion variation in utilisation of factoring, with a reduction of DKK 1,255 million in factoring in 2019 compared with an increased utilisation in 2018 of DKK 1,545 million. Excluding variations in factoring, cash flow from operating activities improved DKK 1,422 million to DKK 2,530 million in 2019 (2018: DKK 1,108 million). A significant part of the improvement was due to the implementation of IFRS 16 effectively moving lease payments of DKK 1.1 billion to cash flow from financing activities. However, progress was seen on a number of improvement initiatives, e.g. supplier payment terms and debtor days of 49 days (adjusted for factoring) (2018: 50 days) despite high organic growth, including the launch of the Deutsche Telekom contract.

**Cash flow from investing activities** was a net outflow of DKK 332 million (2018: net outflow of DKK 832 million). Cash outflow from investments in intangible assets and property, plant and equipment, net, of DKK 897 million (2018: DKK 813 million) represented 1.1% (2018: 1.1%) of total revenue including discontinued operations. Cash flow from divestment of activities was an inflow of DKK 691 million, most significantly related to the Hygiene & Prevention business in France as well as Israel and Estonia.

**Cash flow from financing activities** was a net outflow of DKK 5,273 million (2018: outflow of DKK 1,135 million). Proceeds from the issuance of the 7-year EMTN bonds for a principal amount of EUR 500 million which together with cash proceeds were used to early repay the EUR 700 million EMTN bonds maturing January 2020. Furthermore, we repaid part of the

EUR 500 million EMTN bonds maturing January 2021, leading to a net repayment of DKK 3,022 million. In addition, ordinary dividends paid to shareholders amounted to DKK 1,500 million and repayment of lease liabilities following the implementation of IFRS 16 was DKK 1,066 million.

## STRATEGIC DIVESTMENTS AND ACQUISITIONS

### DIVESTMENTS AND ASSETS HELD FOR SALE

In 2018, we announced our intention to divest 15 countries and a number of business units. The strategic divestment programme is proceeding and is expected to be completed by 2020. The only significant divestment running behind is Chile. We remain committed to divest the business; however, the process in Chile has temporarily been paused until the political situation in the country allows for adequate valuation.

In 2019, we divested Argentina, Uruguay, Estonia and Israel. Thus, by the end of 2019, four of the 15 countries presented as discontinued operations and classified as held for sale had been divested. In addition, we completed the divestment of the Hygiene & Prevention business in France, the Direct Cleaning business in Germany and some minor non-core activities in Spain.

The net consideration received in 2019 was DKK 918 million consisting of net cash proceeds of DKK 691 million and loans and borrowings of DKK 227 million divested as part of the transactions. As such, around 40% of the combined expected net divestment proceeds of DKK 2.0-2.5 billion have been collected.

At 31 December 2019, 13 businesses were classified as held for sale comprising 11 countries, one business in Asia & Pacific and one business in Northern Europe. Assets and liabilities held for sale amounted to DKK 1,773 million (2018: DKK 3,269 million) and DKK 905 million (2018: DKK 1,629 million), respectively.

On 27 February 2020, we completed the divestment of PT ISS Parking Management in Indonesia, which was classified as held for sale at 31 December 2019, with an annual revenue of approximately DKK 70 million and around 1,616 employees.

Divestments and revaluation of businesses classified as held for sale (including discontinued operations) resulted in a net loss before tax of DKK 456 million in 2019 (2018: loss of DKK 1,872 million) and was recognised in Goodwill impairment, DKK 304 million, Other income and expenses, net, DKK 84 million and Net profit from discontinued operations, DKK 68 million (positively impacted by recycling of accumulated foreign exchange gains related to divestments of DKK 115 million).

## ACQUISITIONS

To further strengthen our key account capabilities, we will pursue selective bolt-on acquisition opportunities with the aim of filling white spots, predominantly within technical services, food services and workplace management and design. In 2019, we made two acquisitions; JH Catering Ltd., a business catering company in Austria, and the Front of House activities of Avarn Security Oy in Finland. Combined, the annual revenue is estimated at DKK 124 million with around 242 employees.

## 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 2019, ISS Global A/S successfully issued 7-year EMTN bonds for a principal amount of EUR 500 million with a coupon of 0.875% and a maturity date on 18 June 2026. The notes were issued under ISS Global A/S's EUR 3 billion European Mid Term Note (EMTN) programme, which is listed on the Luxembourg Stock Exchange. The net proceeds were together with surplus cash used for the early repayment in October 2019 of EUR 700 million EMTNs maturing in January 2020. In addition, ISS Global A/S in December 2019 successfully completed a cash tender for EUR 200 million EMTNs maturing in January 2021 leaving EUR 300 million EMTNs maturing in January 2021 outstanding. As such, the net repayment of bonds was DKK 3,022 million.

The Group uses non-recourse factoring with certain large blue-chip customers and participates in certain customers' supply chain finance (SCF) arrangements (throughout the report referred to as "factoring") when funding rates are attractive and payment terms exceed normal market practice. Large key account customers generally demand longer payment terms and using non-recourse factoring ensures that the working capital tie-up consumes credit capacity of the customer rather than ISS. At 31 December 2019, the total off-balance sheet value of these programmes was DKK 1.4 billion linked to around 50 large key account customers. ISS does not make use of reverse factoring or supply chain financing of payables.

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

## NET DEBT

Net debt (including discontinued operations) was DKK 17,274 million at 31 December 2019, an increase of DKK 4,573 million (2018: DKK 12,701 million). The increase was the result of the implementation of IFRS 16 adding DKK 2,982 million of lease liabilities, the reduction of utilisation of factoring of DKK 1,255 million and ordinary dividends paid out in December of DKK 1,500 million and a negative free cash flow of DKK 264 million. This was partly offset by combined net divestment proceeds of DKK 918 million.

## EQUITY

At 31 December, equity was DKK 2,711 million, equivalent to an equity ratio of 6.3% (2018: 8.0%). The decrease of DKK 692 million was mainly a result of ordinary dividends paid to shareholders of DKK 1,500 million being partly offset by Net profit of DKK 752 million.

## SUBSEQUENT EVENTS

### IT SECURITY INCIDENT

As announced on 19 February 2020, ISS was the target of a malware attack on 17 February 2020, and on 20 March 2020, we announced an update on the incident.

The nature of our business is to deliver services on customer sites, mainly through our people, and as such we have been able to maintain uninterrupted service delivery to the vast majority of customers. There is still no indication that any customer data or sensitive personal employee data has been compromised as a result of the malware attack.

We have now regained control of most of our IT infrastructure and are systematically relaunching business-critical systems, albeit with somewhat reduced functionalities. This includes central finance systems supporting payroll and invoicing. We expect recovery of all business-critical systems during Q2 2020. The ongoing process for restoring or rebuilding systems and IT assets in full is anticipated to be completed by the end of 2020.

Incremental costs related to the following activities; remediation of the IT incident, workarounds to enable the continuous delivery of service to our customers, duplication of costs associated with operating our contracts, and service underperformance as a consequence of system down-time are estimated to be DKK 300-500 million in 2020. These costs will be reported within Other income and expenses, net.

As a consequence of damages to some of our IT assets, a write down and rebuild of part of the IT infrastructure is required. The assessment is ongoing, but the non-cash write-down, which will be reported within Other income and expenses, net, is expected to be up to DKK 350 million. The net incremental capital expenditure related to the rebuild is expected to be DKK 150-300 million in 2020.

In summary, the negative impact in 2020 on organic growth and operating profit before other items, as a result of the IT security incident, is estimated to be immaterial. The isolated combined net negative impact on free cash flow related to the IT security incident is estimated to be DKK 450-800 million with the majority of the impact in the second half of 2020 and some spill-over into 2021.

### COVID-19

As announced on 20 March 2020, we are monitoring the rapidly developing repercussions related to COVID-19. Organic growth for January 2020 was strong at 7%, and above our expectations. Although we had limited access to our IT systems as a result of the malware attack, we saw no indication of any significant impact from COVID-19 during February, with effects largely confined to Asia. However, the rapid escalation of containment measures during March 2020 is having a negative revenue and operating profit impact. As a result of the current elevated global uncertainties on the back of COVID-19, our outlook for 2020 for the ISS A/S Group has been withdrawn pending further clarification of the market developments and the actual financial impact on our business.

While our operating margins are supported by contract clauses and a flexible cost structure, we are currently facing a reduced level of activity across many customer sites, currently most notably within Food Ser-

vices (15% of Group revenue in 2019), as well as a reduction in the demand for projects and above base work. The situation varies greatly by geography, by customer segment and by service. We are in close dialogue with our customers and adapting accordingly within the framework of our contracts. Where demand for our services is impacted, we are utilising whatever government support is available.

Our priority is the safety and wellbeing of our people and our customers. In each country we have been implementing business continuity plans in line with local regulation and restrictions. We are adapting to a fast-moving environment.

Our liquidity remains solid and it is our intent to maintain a high level of liquidity, especially through uncertain times. As an additional precautionary measure, we have in 2020 secured extra liquidity lines, which are fully undrawn. Current liquidity is above DKK 8 billion. We have no financial covenants in our capital structure. We have no debt maturities in 2020 and the vast majority of our debt (around 90%) does not mature until 2024 onwards. In light of the extraordinary circumstances and as a precautionary measure, the Board of Directors of ISS A/S has withdrawn the proposal to pay an ordinary dividend of DKK 7.70 per share.

### DIVESTMENTS

Divestments completed in the period from 1 January to 28 February 2020 are described under Strategic divestments and acquisitions.

Other than as set out above or elsewhere in this Annual Report, we are not aware of events subsequent to 31 December 2019, which are expected to have a material impact on the Group's financial position.

# REGIONAL PERFORMANCE

## CONTINENTAL EUROPE

### THE MARKET

Most markets in this region are developed, but with differences in IFS market maturity and macroeconomic environment. We hold leading market positions in several countries. Key customer segments are Business Services & IT, Industry & Manufacturing, Public Administration, Healthcare and Pharmaceuticals.

### BUSINESS UPDATE

Revenue increased to DKK 30,608 million in 2019 (2018: DKK 28,006 million). Organic growth was 12%, while the impact from divestments and acquisitions, net reduced revenue by 3% and the impact from currency effects was flat.

Commercially, 2019 was a strong year with the highest growth on record for the region and, also a proof point of how strengthening our key account focus can drive strong growth even in mature markets. Our key account customer retention rate remained high at 94% (2018: 95%).

Organic growth was mainly driven by Deutsche Telekom – the largest contract launch in ISS history – but a wide range of other key account contract wins and expansions in Turkey, Iberia and the Netherlands also contributed to the growth as well as price increases in Turkey due to high inflation. The demand for projects and above-base work also increased for the year, contributing to the organic growth. Finally, growth was supported by the organic buildout of self-delivery food service capabilities in Austria – on the back of the business catering acquisition in April – and technical services capabilities in Spain and Turkey. Similar focus on buildout of self-delivery capabilities will continue in 2020.

As previously announced, our global contract with Novartis, of which 84% is in Continental Europe, expired on 31 December 2019. Service delivery for around DKK 0.5 billion has been retained. As such, the net revenue loss is expected to be around DKK 1.5 billion annually as of 1 January 2020.

Operating profit before other items was DKK 1,534 million (2018: 1,725 million) for an operating margin

of 5.0% (2018: 6.2%). In 2019, we disappointingly fell behind on the GREAT restructuring in France with the aim to strengthen our operating model, improve the IFS platform, increase the commercial focus and generate efficiencies. This was the main contributor to the margin decrease in 2019. Albeit delayed, the business plan remains unchanged. With the divestment of the non-core Hygiene & Prevention business completed in December and the onboarding of a new management team in September, we enter 2020 better positioned to implement the business plan and continue the operational improvement. France accounts for 6% of Group revenue and reported a negative low single-digit operating margin in 2019 compared to a historical average in recent years of positive low single digit margin.

Furthermore, operating margins were reduced by the high organic growth on the back of a high number of contract launches and extensions where first-year margins usually are lower. This was particularly pronounced in the Netherlands and Switzerland. Furthermore, the margin decrease was impacted by tough comparator performance in Germany due to a one-off settlement in 2018. Similar to both 2017 and 2018, the margin included a positive impact from a decreased pension obligation.

## NORTHERN EUROPE

### THE MARKET

ISS holds a market-leading position across the region where markets are generally mature, developed, very competitive and with high outsourcing rates. Key customer segments are Business Services & IT, Public Administration, Industry & Manufacturing and country-specific segments such as Healthcare and Transportation & Infrastructure.

### BUSINESS UPDATE

Revenue was DKK 25,037 million (2018: 24,413 million). Organic growth was 4%, while the impact from divestments and acquisitions, net reduced revenue by 1%.

Commercial momentum was solid across most of the region in 2019 with the strongest growth in

many years and an increasing retention rate of 95% for our key accounts (2018: 91%), reflecting strong operational delivery on our value proposition.

Growth was driven by contract wins and expansions with key accounts, including several contract launches in the UK and Denmark. Furthermore, demand for projects and above-base work remained high in particular in the UK & Ireland, Finland and Norway, albeit with a slowdown towards the end of the year.

Operating profit before other items was DKK 1,119 million (2018: DKK 1,538 million) for an operating margin of 4.5% (2018: 6.3%). In 2019, we regrettably faced one large loss-making contract in Denmark following a challenging transition and misalignment of expectations. Through a combination of an updated commercial understanding with the customer and ongoing performance measures, we expect that the operating performance will improve significantly from 2020 and onwards.

The decrease in margin was also significantly impacted by the UK due to a provision related to risks identified through changed systems as well as continued investment in consolidation, centralisation and automation with the aim to reduce overhead costs. The project is part of our transformational projects run by our Global Shared Service organisation and the UK is the pilot country for these efforts. In 2020, we will start to leverage these initiatives across other countries.

Following material underperformance in Sweden starting in 2017, a turnaround was executed according to plan in 2018 which led to margin improvements coming through in 2019. Sweden accounts for 4% of Group revenue, and while margin remains low single-digit in 2019, Sweden is on track to gradually recover in the coming years.

Looking towards 2020, we will continue to roll out our transformational projects via our Global Shared Service organisation as well as investing in our established technical services platform and organically building out our self-delivery capabilities across the rest of the region.

## ASIA & PACIFIC

### THE MARKET

The region comprises a mix of large and established markets, such as Australia, Hong Kong and Singapore, as well as several developing outsourcing markets, such as China, India and Indonesia.

ISS has a strong presence in the region and holds a market-leading position in a number of countries. Key customer segments are Business Services & IT, Industry & Manufacturing, Healthcare, Energy & Resources and Transportation & Infrastructure.

### BUSINESS UPDATE

Revenue was DKK 13,739 million (2018: DKK 12,725 million). Organic growth was 5%, while the impact from currency effects increased revenue by 3%.

In 2019, we further strengthened our IFS offering in selected customer segments, leading to a number of important key account contract wins, extensions and expansions and resulting in solid organic growth. Our key account retention rate was 93% (2018: 93%) reflecting improvements across the region except for Australia and Hong Kong. Growth was positive across the region and the main contributors to the solid growth was Australia, Singapore, Indonesia and India.

In 2020, we will continue developing our value proposition to selected customer segments, supported by the further strengthening of local commercial and operational capabilities, combined with several Group-wide transformational initiatives. 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.

Operating profit before other items was DKK 753 million (2018: DKK 847 million) for an operating margin of 5.5% (2018: 6.7%). In 2019, we were faced with one loss-making contract in Hong Kong as a result of a mix of mispricing and the ongoing political turmoil and strikes, which led to an onerous contract provision. Together with lower margins in Singapore due to extensions of a number of significant contracts, this was the main drivers of the decline in margin in 2019.

Through a combination of ongoing performance improvement initiatives and the onerous contract provision in 2019, we expect that the operating performance in Hong Kong will improve in 2020. In 2020, we will also continue to focus on harvesting the benefits of skills and scale by leveraging volume, concepts and talent across the region. We are focusing further on cost leadership and on achieving scale benefits through procurement excellence across countries. In addition, we are aligning organisational structures by leveraging best practice concepts. Finally, sharing talents across the region and



developing leadership and key account management skills through training programmes will remain in focus.

## AMERICAS

### THE MARKET

Americas consists of two different markets – a mature North American market and a developing market in Mexico. North America is the world's largest FM market, accounting for approximately 27% of the global outsourced FM market. Given ISS's historically limited presence in North America, our market share remains very limited. However, this also means that North America stands out as the single biggest growth opportunity across the Group. Key customer segments are Business Services & IT, Transportation & Infrastructure and Industry & Manufacturing.

### BUSINESS UPDATE

Revenue was DKK 8,459 million (2018: DKK 7,847 million). Organic growth was 2%, while the impact from currency effects increased revenue by 6%.

With the acquisition of Guckenheimer in 2017, we built a competitive IFS platform and positioned ourselves to capture growth in the market through strong self-delivery capabilities. Under the ownership of ISS, Guckenheimer (Food Services) has

grown more than 50% organically, hereby establishing ISS among the ten largest contract caterers in the US.

In 2019, the underlying commercial momentum was strong, though growth was partly offset by the short-term deliberate organic exit of small specialised services contracts in our legacy business. Excluding the deliberate exits organic growth was 5.8%. Our strengthened IFS platform and sharpened focus on key accounts led to our key account customer retention rate increasing to 96% (2018: 93%).

Operating profit before other items was DKK 448 million (2018: DKK 228 million) for an operating margin of 5.3% (2018: 2.9%). The strong improvement was driven by turnaround initiatives initiated in previous years, i.e. exit of small specialised services contracts and organisational restructurings, combined with sharpened focus on key accounts leading to continued accretive growth in Food Services.

From this stronger, more focused platform, we will continue to shift our focus towards executing on the key account strategy. Together with potential further organic investments and potential future acquisitions in technical services and food service capabilities, ISS will start to build a significantly larger presence in the world's largest FM market.

# OUR STRATEGY

We operate in the global facility services market – a market with an estimated outsourced value of around USD 1 trillion. This marketplace is changing, and ISS is changing with it.

## WE ARE PLACEMAKERS

We want to make the world work better. Our services help protect and maintain places – buildings and the key assets inside – to ensure optimal performance. In addition, we also help drive the engagement and well-being of people – including employees, passengers or patients – by creating outstanding environments and great service moments. Finally, we help our customers minimise their impact on the planet by reducing their consumption of energy, carbon and water and cutting their production of waste, including food. We bring all of this to life through a unique combination of data, insight and service excellence.

## WHY ISS?

Customers choose to partner with ISS for a multitude of reasons, but our key differentiation can be summarised as follows.

First and foremost are our people. We care about our people. In turn, they care about the places they maintain, the people they serve and the planet they seek to protect. We invest in our people through extensive training and development. We give them opportunity and we know that they make a difference. That is why we are passionate about our self-delivery credentials, taking responsibility and ownership for the outcomes our customers demand.

Second is the high standards we commit to in all aspects of delivery. This commitment is part of our DNA. It is cemented in our heritage. We exist to make a difference. We go the extra mile to ensure expectations are exceeded.

Third is our ability to deliver intelligent solutions. Our people, our experience and our insights allow us to add value to operational, tactical and strategic issues. Importantly, it is our ownership of all these issues that makes a difference. We gain unique operational insights from our own people, day in, day out. Combined with growing use of technology and

data, this allows us to make smarter strategic recommendations, which we can then bring to life, back on the ground, via our own committed, trained and empowered workforce.

## PEOPLE MAKE PLACES AND PLACES MAKE PEOPLE

Our delivery can be matched against a spectrum of customer needs. In its most extreme form, the world of work is a functional place – a place that simply needs to operate. Places need to be clean and the lights kept on. Users need to be safe and secure and allowed to go about their business. However, the boundary between work and life is blurring. Customers want more than functional. They want experience. Taking a more emotive perspective requires us to create places that think. Places that are more personal. Services that are more tailored to individuals to create experiences they can enjoy. If we go further still, customers require places that give. These are the places where people are at the core. These are places that must enhance lives because there is no discernible boundary between work and life. ISS helps create places that work, think and give.

## THE ISS WAY STRATEGY

The ISS Way has guided our strategic direction and choices since 2008 when we started the process of building and leveraging a differentiated platform. From our core services – Food, Technical, Cleaning, Support and Security – we strengthened our capacity to deliver Integrated Facility Services (IFS), offering bundled solutions with greater efficiency and better business outcomes that more readily supported our customers' purpose. We proved our ability to take local customer relationships national, before taking them regional and finally global. Supported by this success, we intensified our focus from 2014- 2018, making stricter choices on which industry segments and customers to target, which services we needed to provide and the places on the globe where we wanted to provide them.

We are now in the process of accelerating this journey. From 2019-2021 we have intensified our focus on – and investment in – key account customers. It is with these customers that our value proposition resonates loudest and hence where our growth opportunity is greatest.



We estimate the outsourced key account market to comprise around 40% of the total facility services market – in other words, amounting to approximately USD 400 billion, globally. This implies an ISS share of less than 2%. The outsourcing decision for key account customers is strategic rather than purely operational. They are focused on outcome, not merely input, and demand a solution that is customised to their specific needs. Proven industry segment expertise is critical, as is the strength of our relationship and daily interaction – via a trained and certified key account manager. We must deliver operational excellence and risk assurance, whilst continually exhibiting cost leadership. These customers are consolidating their supplier bases – across service lines and geographies. ISS is benefitting from this trend and increasing its share of customer wallet.

At ISS, serving our key account customers has been an outstanding success. Our revenue with global key account customers has grown by 62% over the past five years and revenue from IFS has grown by 26% over the same period. Key account customers offer ISS better win rates, longer duration contracts and higher retention, higher potential share of customer wallet and, in turn, stronger growth.

To deliver against these key account customer needs, we continue to build and develop our industry segment capabilities. We also continue to strengthen and build our capabilities within our strategic services, these being facility services, workplace management and design as well as project management. We have organised ourselves in a way that allows us to leverage volumes, concepts and talent across customers, across countries, and across regions – collaborating across the Group to exploit our purchasing power, bring successful innovations from customer sites to the rest of the Group and develop and share our best people.

We have become smarter. Today, we are better informed about where the key account opportunities are most prevalent and what it will take to be a winner in this marketplace. More than ever before, we now seek to concentrate capital and resource in those areas that afford compelling, long-term growth and attractive returns, and play to the strengths of ISS.

## INVESTING IN KEY ACCOUNT GROWTH

To maximise growth from our key account focus, we are investing further. We are undertaking a DKK 700-800 million programme of accelerated investments running from 2019-2021. These investments

are fully funded by divestment proceeds and will comprise project-related operating expenditure (approx. 50%) and capital expenditure (approx. 50%). In addition, we will continue to pursue selective M&A opportunities.

The principal areas of investment will include:

- Catering services
- Technical services
- Workplace management
- Technology and data

There are three key aims behind our investment plans.

First, we wish to strengthen some of our existing core capabilities in facility services. We will seek to fill white spots in key geographies to ensure consistency and transparency of service delivery for our customers. Examples include food and technical services.

Second, we are looking to scale other capabilities which may be a small part of our current service platform but where the value we bring to our customers is considerable. We will accelerate the roll-out and deployment across our major key account customers, for example within workplace management and associated technology.

Third, we will selectively explore and invest in new breakthrough capabilities, meaning services that lie outside of our current offering. However, any such investment will only be considered if the new service is clearly complimentary to our existing activities, if it strengthens our value proposition and it can be readily scaled across the Group.

## SHARPENING OUR GEOGRAPHIC FOOTPRINT

As we sharpen our focus on key account customers and make additional investments in our service capabilities and platform, we will also further reduce our exposure to non-core activities. This process is releasing capital and resources which are being re-allocated to help fund the planned investments in our core business mentioned above. In addition, it will also make our organisation less complex, reduce risk and strengthen our ability to execute on our strategic priorities. As such, we have made bold decisions regarding the geographies we really need to be in. Every ISS country must present a strong and compelling key account strategy, consistent with the Group's priorities.

In our Strategy Update in December 2018, we announced our intention to divest activities in 13

countries – Thailand, the Philippines, Malaysia, Brunei, Brazil, Chile, Israel, the Czech Republic, Slovenia, Slovakia, Estonia, Hungary and Romania. This is in addition to Argentina and Uruguay, which were divested in January 2019. The local markets in these countries are less supportive of our key account focus and are often dominated by smaller, price-centric customers. It is not easy for us to leverage volumes, concepts and talent and, in some instances, we cannot generate attractive and sustainable returns at a commensurate risk. We will, however, continue to serve global and regional key account customers in these markets. Finally, we also announced our intention to divest a number of business units across the Group, entirely consistent with our strategy of recent years and thereby completing our exit from non-core services.

Currently, we have completed the divestments of Israel and Estonia as well as the Hygiene & Prevention business in France, Direct Cleaning in Germany and some minor non-core activities in Spain. We expect completion of all remaining divestments in 2020.

## PROGRESS IN 2019 – TRANSFORMATIONAL INVESTMENT PROGRAMME

Our investment programme will significantly strengthen ISS's delivery capability to key accounts and is expected to yield attractive financial returns. Thus, it will support our transformation into a structurally higher growth company and contribute to the continued extraction of benefits from volume, concepts and talents across our business. By the end of 2019, investments amounted to approximately DKK 300 million. Below are some of the highlights of the progress we have made on our transformational projects in 2019.

### TECHNOLOGY AND DATA

We continue to apply an increasing level of technology in our solutions to drive compliance, transparency, consistency and efficiency. A strategic cornerstone of this is the development and roll-out of our upgraded facility management system (FMS@ISS), which will become the backbone of all of our other technology and data-driven initiatives. We continued to develop FMS@ISS, but at the same time accelerated the roll-out and by the end of 2019, we had migrated key accounts generating close to 50% of our total key account revenue. By the end of 2020, we aim to be above 70% and in 2021 we expect the rollout programme to conclude. This comes along with an ISS suite of solutions covering end-to-end front and back-office processes, e.g. ERP (NAV@ISS), procure-to-pay (P2P@ISS), CRM (CRM@ISS) and people man-

agement (People@ISS). NAV@ISS is now deployed in 18 countries (continuing business), with our P2P@ISS and People@ISS systems commencing roll-out in 2020. In addition, we already completed the roll-out of our CRM@ISS across our global footprint. Integrating this suite of products is a key enabler to achieve our key account strategy and provide deeper assurance and innovation for our customers.

Our Global Support Solutions (GSS) organisation continues to drive our journey from decentralised local ownership of the financial processes towards a standardised and optimised setup focused on key accounts, which is an enabler of consistency and cost leadership among others through standardisation and benchmarking across countries. In 2019, we continued the roll-out in the UK, which has been the Group pilot and GSS will accelerate the global migration further in 2020.

### STRENGTHENING OUR CORE CAPABILITIES

In 2019, we strengthened our service capabilities within technical services by accelerating our organic build-out, most significantly in Germany as part of the launch of the Deutsche Telekom contract. Other significant country investments in 2019 comprised the UK, Denmark and Spain. In Austria, we acquired JH Catering, a business catering company, which strengthened our self-delivery capabilities within food services and allowed us to further build out our food services offering, which we will continue to leverage in 2020.

We also continued to leverage SIGNAL (acquired in 2017) to help create unique workplace experiences for some of our most important key account customers evidenced in measurable outcomes. In 2019, we continued our expansion and set up our first office in the UK to support our local and global key account customers. We have evidenced that we can deliver large international campus projects, workplace experience strategies, strategic advisory assignments and that we are a trusted advisor for our customers facilitating strategically important business outcomes.

# OUR PEOPLE

We care about our people. In turn, they care about the places they maintain, the people they serve and the planet they seek to protect.

People are at the very heart of ISS. From the company's origins in 1901, ISS has been a people organisation, working with a strong belief that great people can and do make a difference. More importantly, we believe in our responsibility – to both our people and the people we serve. We have a proud heritage of fairness, equality and inclusion, providing opportunity through developing and engaging our 471,056 colleagues across the globe. This is central to our customer value proposition. We provide a skilled, empowered and motivated workforce who seek to deliver high standards at our customers' premises. We believe that **people make places and places make people**.

Whilst our belief in people is an important part of our culture, bringing this story to life does not happen by chance. We ensure a rigorous process of people management from recruitment through to onboarding and training. We have created numerous programmes which are deployed across our organisation to support this. Above all, great **leadership** is the ingredient most essential for successful implementation of our strategy. Our leaders are key to the subsequent **development** and **engagement** of all our people and the consistent delivery of our customer value proposition.

## LEADERSHIP

The **ISS Leadership Competency Framework** provides a common understanding of the skills and behaviours expected from all our leaders to ensure successful strategy execution. The ISS University is our 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 capabilities 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.

The **ISS Leadership Mastery programme** is a comprehensive, five-module programme for selected senior 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, more than 120 senior leaders have graduated from this programme.

We have also launched **Leading the ISS Way**, targeted more broadly at senior leaders and key account managers. This 6-day development programme is initiated with a 360 evaluation of all participants who are then supported in learning to grow and develop their own teams. All country leadership teams have graduated from the programme and are actively involved in driving the learning through their country organisations.

## DEVELOPMENT

Our Key Account Managers hold complex general management positions, are financially and customer accountable and responsible for leading large and diverse teams, often across multiple customer sites. They play a vital operational role and we place great importance on their development via **Key Account Manager Certification (KAMC)**. This modular programme has now issued more than 1,500 certifications. KAMC has consistently yielded a strong improvement in the loyalty of both our employees and customers.

In addition to developing the leadership of today, we also aim to secure our leadership pipeline for the future. A key initiative in this regard is the **Site Manager** programme, where high potential service professionals are supported in their first step into a leadership role. They learn the fundamentals of operations management, customer relationships and people leadership, allowing us to create opportunities for talented individuals to grow their careers within ISS.

To further develop our internal succession pipeline, we seek to bring in fresh new talent that will challenge our thinking and add to the diversity of our leadership. We do this through the **Global Management Trainee Programme** targeting young professionals in more than 15 countries. After extensive assessment rounds, the final participants go through an 18 month fast-track programme taking them through operational and commercial tours of duty across geographies, within ISS.

In addition to the Global training programmes, countries carry out training programmes that are based on the Global framework such as employee induction and training programmes specific to the services we provide in country, e.g. within cleaning.

## ENGAGEMENT

Employee engagement is a critical element of our customer value proposition. Positive attitudes and behaviours lead to positive business outcomes, including the desired customer experience and retention. We enable our employees by ensuring they have the right skills, tools, information and other resources. **Service with a Human Touch (SWAHT)** focuses on our frontline employees. The programme helps drive cultural change, communicating our customer value propositions into concrete service behaviours for thousands of service professionals.

SWAHT is operational in 46 countries, with 600 accredited trainers and close to 200,000 trained employees across approximately 1,000 key accounts.

We reinforce this service culture through the **Apple Award Programme** – our reward and recognition programme celebrating employees, who go the extra mile, creating memorable service moments that truly make a difference for our customers. Each ISS country celebrates an Apple of the Year, and from this a Global Apple of the Year winner is selected at the annual Global Leadership Conference.

## DIVERSITY AND INCLUSION

In 2019, a Global Head of Diversity & Inclusion was appointed to intensify our focus and lead the

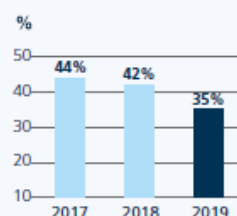
agenda across the organisation. This step will ensure that we share best practices, promote global alignment and drive implementation. We are launching a global concept named “You make a difference” and are targeting at least 40% of gender balance within all leadership roles by 2025 – a goal approved by the Executive Management Board and the Board of Directors. Whilst this will, initially, be our primary focus, our ambitions go beyond gender and we will implement initiatives targeting the three dimensions Fairness & Equality@work, Diversity of Thoughts and Inclusiveness.

## RETENTION

We operate in a marketplace where levels of employee churn are inherently high. This is unlikely to change. However, we are targeting a structural improvement in our employee retention rate and see the benefits for our customers as twofold. First, higher employee retention underpins a more consistent, higher quality of service. Second, higher employee retention reduces the costs associated with attracting, recruiting and onboarding new colleagues. We fully believe the initiatives detailed above provide a return on our investment and serve as a strong differentiator for ISS.

We are pleased that our global employee turnover continued to improve in 2019, arriving at 35% and reflecting among others our persistent Group push for retention initiatives in countries, e.g. improved labour conditions relative to the market in certain countries. The positive trend is also driven by our key account strategy, including discontinuation of high-churn non-key account customer contracts. Finally, with the strong focus on measuring the impact of our initiatives, there is also a learning that has led to an improved reporting methodology.

### EMPLOYEE TURNOVER



# OUR BUSINESS RISKS

Risk management is an integral part of our value creation – for our customers and for ISS. As a global business, we take an active approach to risk management, ensuring that our key risks are identified and managed in a structured and prioritised manner.

The ISS value proposition is based on supporting our customers by providing an integrated solution for management of the facility services, which are non-core to our customers, but critical to their ability to deliver their core business purpose. Since our services are integrated into our customers' value streams there is a risk of disrupting their operations if effective operational risk management is not applied or if contract requirements are not complied with. Consequently, while risk management is important within ISS to manage our own risks we also see it as an important part of our service delivery, essentially providing risk management and compliance as a product.

## FOCUS IN 2019

In 2019, we have continued our development of our risk framework towards alignment with ISO 31000, improving risk visibility, and delivering industry best practice risk assurance. The risk management governance structure and lines of defence model has been expanded to include functional risk committees for each major Group function and a functional risk process covering all key functions in the ISS Global organisation. Through this setup all functions have a clear risk ownership, are responsible for ensuring

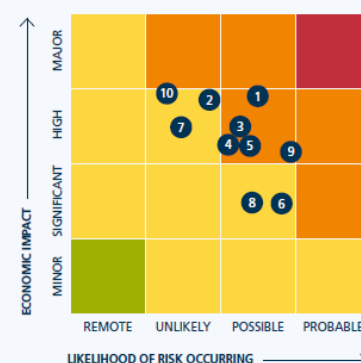
that risks are identified and assessed, that appropriate risk management actions are taken, and that the outcome of this process is reported all the way up through the governance structure.

Due to our continued focus on key account customers and the increasing importance of compliance with regulation we experience an equally increasing demand for risk transfer, operational risk management and contract compliance. We hold and manage data related to our customers' business, e.g. basic personal data, asset information, and manufacturing plant design. Considering 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, information security and how we as service provider comply with information security requirements plays an increasing role in our risk management efforts. Additionally, we have further strengthened our efforts to improve our information security with a specific focus on HR compliance and General Data Protection Regulations (GDPR) compliance.

## GROUP KEY RISKS

Consistent with the strategic focus on global key accounts we have continued our programme of accelerated investment in our service capabilities and platform, and at the same time we are reducing our exposure to non-core activities, including geographies that do not contribute significantly to our global key account delivery, but which are challenging to operate with our firm commitment to regulatory and contractual compliance. This strengthening of our

### GROUP KEY RISKS



1. Operational execution
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

operational focus is creating a significantly less complex organisation and will ultimately reduce our risk exposure.

While we expect to reduce our risk exposure going forward as a result of the key account focus, the defined key risks the Group currently faces remain the same, only they will be concentrated on fewer and bigger customers. These key risks are illustrated in the overview above and described on the following pages.

We are also exposed to financial risks related to our operating, investing and financing activities. Financial risk management is described in detail in note 4.4 to the consolidated financial statements.



## 1. OPERATIONAL EXECUTION

As our services are integrated with our customers' value streams, any non-compliance with operational procedures or contract requirements may disrupt or damage our customers' operations and/or brands.

## 2. EMPLOYEE RISKS

Our success depends on our ability to attract, develop and retain talented and engaged people. It requires us to take good care of our people with respect to HSE and work environment which in turn requires good leadership.

## 3. CONTRACT RISK AND GOVERNANCE

The profitability of our contracts depends on 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.

## 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.

## 5. INFORMATION SECURITY INCL. CYBER RISK

We increasingly hold and manage data related to customers' businesses, e.g. basic personal data, asset information, and manufacturing plant design. Considering our business strength in highly regulated industries such as pharma, food manufacturing and banking, this increasingly exposes us to information security and cyber risk.

### RISK DRIVERS

- |   |   |  |  |  |
|---|---|--|--|--|
| <ul style="list-style-type: none"> <li>• Complexity in our service delivery</li> <li>• Customer requirements relating to operational control and risk management, e.g. in the banking sector and the pharmaceutical industry</li> </ul> | <ul style="list-style-type: none"> <li>• "War for talent"</li> <li>• Global epidemics</li> <li>• Customers' HSE and compliance requirements</li> <li>• Decentralised structure</li> </ul> | <ul style="list-style-type: none"> <li>• Complexity in contracts and services, e.g. IFS and energy management</li> <li>• Increasing contract volumes, e.g. the growing share of global key accounts</li> </ul> | <ul style="list-style-type: none"> <li>• Changes in local regulations and stepped-up enforcement</li> <li>• Customers outsourcing compliance and risk management to ISS</li> <li>• Data privacy regulations</li> </ul> | <ul style="list-style-type: none"> <li>• IFS contracts</li> <li>• Risk of cyber attacks</li> </ul> |
|---|---|--|--|--|

### MITIGATION MEASURES

- |   |   |  |   |  |
|---|---|--|---|--|
| <ul style="list-style-type: none"> <li>• Risk &amp; Compliance tools implemented to support the automation of operating processes and ensure that services are delivered and managed according to our process frameworks</li> <li>• Continuous reviews on selected contracts as a part of the global risk management framework</li> </ul> | <ul style="list-style-type: none"> <li>• Global people standards and group HSE policies</li> <li>• Global employee engagement surveys</li> <li>• Leadership development and training programmes</li> <li>• HSE site compliance plans</li> </ul> | <ul style="list-style-type: none"> <li>• IT tool for contract risk management</li> <li>• Strengthened approval process for large contracts following onerous contracts in 2019</li> <li>• Contract risk reviews performed by Group Risk Management for specific contracts</li> <li>• High-risk contract dashboard for monitoring limitation of liability</li> <li>• The strategic focus on a significantly reduced number of customers will make deployment of Group initiatives easier as well as leveraging volumes, concepts and talent more effectively</li> </ul> | <ul style="list-style-type: none"> <li>• Group Corporate Governance Policy</li> <li>• Code of Conduct, Anti-Corruption Policy, and Competition Law Policy, including ongoing training for selected managers and employees</li> <li>• GDPR procedures, including training</li> <li>• Binding Corporate Rules for the exchange of personal data between ISS Group companies</li> <li>• Structured operating model for compliant service delivery in countries where we do not have an own presence</li> </ul> | <ul style="list-style-type: none"> <li>• Information Security Policy and other Group IT policies and procedures</li> <li>• Strengthening of the IT Security organisation by recruiting people with the right skill sets</li> </ul> |
|---|---|--|---|--|

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.

## 6. CUSTOMER RETENTION AND COMPETITION

Competitive value propositions are key to attract and retain 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 entry barriers and significant competition from local, regional and global players.

## 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.

## 8. SUBCONTRACTORS

We rely 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.

## 9. MACROECONOMY

The past decade has seen recurrent financial turmoil – including Brexit and the risk of trade wars – that has affected the global economy.

## 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.

### RISK DRIVERS

- |  |  |  |  |   |
|--|--|--|--|---|
| <ul style="list-style-type: none"> <li>• Customer concentration</li> <li>• Key account management</li> <li>• Inconsistent service delivery</li> <li>• Strategic market position</li> <li>• Lack of deep segment expertise</li> </ul> | <ul style="list-style-type: none"> <li>• Exposure in emerging markets</li> <li>• Decentralised financial IT systems and control structures</li> <li>• Step-up in extraterritorial regulations and enforcement</li> </ul> | <ul style="list-style-type: none"> <li>• Growth in countries with low IFS capabilities</li> <li>• Growth in global key accounts</li> <li>• Complexity and level of service delivery</li> <li>• High-profile customers</li> </ul> | <ul style="list-style-type: none"> <li>• Customers downsizing their businesses or reducing their need for services</li> <li>• Political instability</li> <li>• Brexit</li> <li>• Risk of trade wars</li> </ul> | <ul style="list-style-type: none"> <li>• Complexity in service delivery</li> <li>• High-profile customers</li> <li>• Use of social media</li> </ul> |
|--|--|--|--|---|

### MITIGATION MEASURES

- |  |  |  |   |   |
|--|--|--|---|---|
| <ul style="list-style-type: none"> <li>• Roll-out of Customer Relationship Management system</li> <li>• Customer satisfaction surveys (cNPS)</li> <li>• Roll-out of the Key Account Manager Certification programme (KAMC)</li> <li>• Strategic focus on investing in and focusing even more on key account customers</li> </ul> | <ul style="list-style-type: none"> <li>• Monitoring the implementation of key controls through the system of Control Self-Assessment and Self-Testing</li> <li>• Mandatory e-learning modules on our Code of Conduct, anti-corruption, anti-bribery and competition law for selected managers and employees</li> <li>• Automated interface between local ERP platforms and the Group's standardised financial reporting tool</li> <li>• Exit from certain emerging markets with high inherent compliance risk</li> <li>• Speak Up policy</li> <li>• Effective control environment</li> </ul> | <ul style="list-style-type: none"> <li>• Supplier Code of Conduct</li> <li>• Separate operating model when using subcontractors in countries with no ISS presence</li> <li>• Roll-out of global risk-based vendor vetting and approval system</li> </ul> | <ul style="list-style-type: none"> <li>• Balanced and diversified revenue base</li> <li>• Ongoing formal monitoring of market changes and developments</li> </ul> | <ul style="list-style-type: none"> <li>• Group Escalation Policy defining process for escalation of incidents to senior-level management</li> <li>• Crisis communication plan integrated in Group Escalation Policy and Group Crisis Response Plan</li> <li>• Media handling (internal and external) and monitoring tools, as well as media communication guidelines</li> </ul> |
|--|--|--|---|---|

# CORPORATE GOVERNANCE

Transparency, constructive stakeholder dialogue, sound decision-making processes and controls are key aspects of our corporate governance for the benefit of ISS and our stakeholders.

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.

## 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 2019 statutory report on corporate governance, which is available at <http://inv.issworld.com/governancereport>, provides an overview of our overall corporate governance structure and our position on each of the Danish Corporate Governance Recommendations. At the end of 2019, we complied with all of the Danish Corporate Governance Recommendations except recommendation 1.1.3 regarding the publication of quarterly reports. We publish full-year and half-year financial results and trading updates in Q1 and Q3 in line with international industry practice. This reporting format is selected to balance focus between short-term performance and long-term value creation. Investor presentations continue to be held quarterly via live webcast/telephone conference.

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>

## 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 on p. 23.

In 2019, the Board performed an internal evaluation of the Board's performance led by the chairman of the Board, which included the performance of individual Board 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 2019 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. 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 2019.

## EXECUTIVE GROUP MANAGEMENT BOARD

The members of the EGMB are the Group CEO and the 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 eight 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. 23.



## OUR GOVERNANCE STRUCTURE

### BOARD OF DIRECTORS

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.

### BOARD COMMITTEES

#### AUDIT AND RISK COMMITTEE

- Evaluates the external financial reporting and significant accounting estimates and judgements related to items such as impairment tests, divestments, deferred tax as well as revenue and related customer receivables
- Reviews and monitors the Group's risk management, internal controls, and business integrity matters
- Monitors the Group internal audit function
- Evaluates the Financial Policy, the Dividend Policy and the Group Tax Policy
- Monitors and considers the relationship with the independent auditors, reviews the audit process and recommends auditors

#### REMUNERATION COMMITTEE

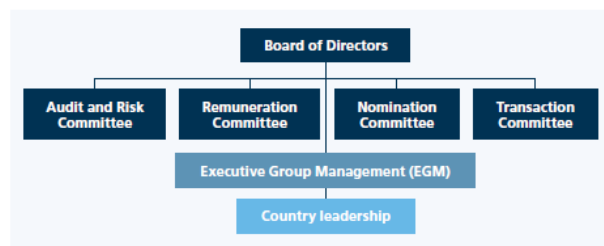
- Assists in preparing the remuneration policy and the overall guidelines on incentive pay
- Recommends the remuneration of Board and EGMB members, approves remuneration of EGM

#### NOMINATION COMMITTEE

- Assists 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
- Recommends nomination or appointment of Board, EGMB and board committee

#### TRANSACTION COMMITTEE

- Makes recommendations 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



### EXECUTIVE GROUP MANAGEMENT

Responsible for 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 procedures for accounting, IT organisation, risk management and internal controls

EGM has established a number of committees, including Sustainability, Remuneration and Transaction Committee

### 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](http://www.issworld.com).

## SPEAK UP (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 Group Internal Audit via a secure and externally hosted reporting tool or via our telephone hotline, both accessible via the ISS website.

All business ethics and corruption issues identified through the Speak Up system or other sources are handled by the Business Integrity Committee (BIC) that is composed of the Group CFO, the Group General Counsel, the Group People and Culture Officer and the Head of Group Internal Audit. The BIC reports to the Board’s Audit and Risk Committee on all matters that have been subject to investigation.

## COMPETENCIES AND DIVERSITY

As one of the world’s largest private employers with around 470,000 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.

Emphasis is placed on:

- experience and expertise (such as industry, strategy and value creation, leadership of large international companies, transformational change, people development and succession, sales and marketing, IT and technology, finance, risk management, and corporate responsibility);
- diversity (incl. age, gender, new talent and international experience) and diversity of perspectives brought to the Board or the EGMB; and
- personal characteristics matching ISS’s values and leadership principles.

The Board has adopted a gender diversity target of having at least 40% women elected by the general meeting on the Board by 2020<sup>1)</sup>. Currently, 33% of these Board members are women and the target was not reached in 2019. The Board found that, in broad terms, it possessed a high level of diversity and did not nominate new Board candidates in 2019. Including employee representatives, 44% of our Board are women.

In order to increase the number of women in management positions at ISS’s global head office, we continue leveraging our Diversity Policy, which defines a number of initiatives, including our recruitment policy, requiring us to short-list at least one female candidate in all searches for vacant positions.

### SPECIFIC MATTERS TRANSACTED BY THE BOARD IN 2019

- Reduction of complexity and risk management
- Review of specific operational priorities and challenges

### 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 and Dividend Policy
- External financial reporting, Remuneration and CR reports
- Material risks and risk management reporting
- Internal controls and risks related to financial reporting
- IT and information 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
- Recommendation of auditors for election at the annual general meeting

We also 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. 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 30% female representation at our 2019 Global Leadership Conference, and 40% female participation in our Leadership Mastery programme.

The representation of women at management level at the global head office increased slightly in 2019 compared to 2018 and gender diversity remains a focus area in 2020.

<sup>1)</sup> 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.

# INTERNAL CONTROLS RELATING TO FINANCIAL REPORTING

A strong governance and internal controls framework is the foundation for quality and efficiency of financial reporting.

## ASSURANCE

The responsibility for overall financial assurance is aligned with our governance structure, p. 23.

Group Finance has the overall functional responsibility for the risks related to financial reporting. With the support of Group Risk Management, Group Finance is responsible for the identification and assessment of financial reporting risks and for defining appropriate internal controls, which are implemented across the Group.

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 (ARC). GIA works independently of the Executive Group Management Board (EGMB), operating under a charter approved by the Board of Directors (Board) and reporting directly to the ARC.

Group policies of relevance to financial reporting include the Code of Conduct, the Accounting Manual, the Reporting Manual, the Financial Policy, the Factoring Policy 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 compliant with ISS policies and procedures and gives a true and fair view of the Group's financial position and results.

The EGMB annually identifies and assesses the material financial reporting risks and determines which control activities and systems are required to detect and prevent such risks. This procedure is based on a materiality test, and includes 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 ARC discusses on an ongoing basis:

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

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 Finance is responsible for controlling the financial reporting by subsidiaries and for preparing the consolidated financial statements.

## GROUP INTERNAL AUDIT

GIA performs annual audits across the Group. The planning is based on the group key risks described on pp. 20–21, a risk assessment performed for the individual countries and the outcome of the annual control self-assessment.

The internal audit framework consists of two key elements:

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

In 2019, GIA performed:

- 23 baseline audits in individual countries
- 26 risk-based audits, including audits covering internal control areas related to compliance and the quality and effectiveness of financial reporting; and
- 16 audits of the governance and internal controls within Group corporate functions.

Audit findings and conclusions, including recommendations on how the control environment may be improved, are reported to the relevant country and regional management, the EGMB and the independent Group auditors. The key findings are presented to the ARC, 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 ARC, the EGMB, and regional management. Follow-up audits are performed to provide assurance on the implementation of the measures to resolve audit findings.

## 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 overview below. In 2019, we continued the implementation of a structured and formalised Internal Control Framework for Financial Reporting (ICOFR). The status of internal controls for financial reporting, as assessed in the internal audits, and the status on the implementation of the key processes and systems that support the financial reporting, is reported separately for each reporting entity under the framework.

In 2019, the Global Shared Service organisation continued to centralise, standardise and automate processes and controls across the Group. The UK is the pilot country for these efforts and the implementation project is expected to be finalised in 2020.

In 2019, we also successfully launched a new group-wide system and process to standardise the period-end and account reconciliation processes, providing transparency across all country ledgers.

An internal training programme was launched in 2019 to further strengthen the awareness and knowledge of, and to ensure compliance with the Group's accounting policies. Following the initial roll-out of training in the new leasing standard (IFRS 16), the programme will be extended to cover all key accounting topics of relevance for the employees involved in financial reporting.

## EXTERNAL AUDIT

The Group's financial reporting and internal controls are audited at the independent auditors elected at 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' long-form audit reports which are reviewed by the ARC.

KEY AREA	REPORTING – ALL COUNTRIES	CONTROL ACTIVITIES
<b>Financial position and results</b>	Income statement, statement of financial position, statement of cash flows, portfolio analysis etc., monthly.	Group Finance monitors and controls the reporting for significant deviations from the budget and last year's performance.
<b>Free cash flow</b>	Daily liquidity cash flow forecasts prepared once a month for a forward-looking six week period. Working capital forecasts mid-quarter for a forward-looking six week period.	Actual figures are continuously monitored and validated by Group Treasury for deviations from forecasted figures, including e.g. daily follow-up on local material cash balances.
<b>Business reviews</b>	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 and between regional management and EGMB with a focus on the current performance and the state of the business.
<b>Budgets and financial plans</b>	Budgets and plans for the following financial year in a predefined format.	EGMB and regional management review the proposed budgets and plans with the countries.
<b>Full-year forecasts</b>	Full-year forecasts updated twice a year.	EGMB and regional management review the proposed full-year forecasts with the countries in light of their current performance and the state of the business.
<b>Strategy reviews</b>	Country leadership provides 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.
<b>Acquisitions and divestments</b>	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.
<b>Large contracts</b>	Bids for large contracts are presented in a predefined format centred on risk evaluation.	Depending on size, approval is required by regional management, EGMB or Transaction Committee/Board.
<b>Control self-assessments</b>	Once a year, country leadership performs a self-assessment of the implementation of certain key internal control activities and develops plans to close any implementation gaps.	GIA performs ongoing audits based on the countries' control self-assessment and self-testing activities.

# CONSOLIDATED FINANCIAL STATEMENTS

28	<b>PRIMARY STATEMENTS</b>
28	Consolidated income statement
29	Consolidated statement of comprehensive income
30	Consolidated statement of cash flows
31	Consolidated statement of financial position
32	Consolidated statement of changes in equity
33	<b>SECTION 1 OPERATING PROFIT AND TAX</b>
33	1.1 Segment information
34	1.2 Revenue
36	1.3 Translation and operational currency risk
37	1.4 Other income and expenses, net
38	1.5 Income tax
39	1.6 Deferred tax
41	<b>SECTION 2 OPERATING ASSETS AND FREE CASH FLOW</b>
41	2.1 Property, plant and equipment and leases
43	2.2 Trade receivables and credit risk
45	2.3 Other receivables
46	2.4 Other liabilities
46	2.5 Changes in working capital
47	2.6 Provisions
49	<b>SECTION 3 DIVESTMENTS AND STRATEGIC ACQUISITIONS</b>
49	3.1 Discontinued operations
50	3.2 Assets and liabilities held for sale
52	3.3 Divestments
53	3.4 Acquisitions
54	3.5 Pro forma revenue and operating profit
55	3.6 Intangible assets
57	3.7 Goodwill impairment
57	3.8 Impairment tests
60	<b>SECTION 4 CAPITAL STRUCTURE</b>
60	4.1 Equity
61	4.2 Loans and borrowings
63	4.3 Financial income and expenses
63	4.4 Financial risk management
64	4.5 Interest rate risk
65	4.6 Liquidity risk
66	4.7 Currency risk
68	<b>SECTION 5 REMUNERATION</b>
68	5.1 Remuneration to the Board of Directors and the Executive Group Management
68	5.2 Share-based payments
71	5.3 Pensions and similar obligations
74	<b>SECTION 6 OTHER REQUIRED DISCLOSURES</b>
74	6.1 Other segment information
75	6.2 Contingent liabilities
75	6.3 Related parties
76	6.4 Government grants
76	6.5 Average number of employees
76	6.6 Fees to auditors
76	6.7 Subsequent events
78	<b>SECTION 7 BASIS OF PREPARATION</b>
78	7.1 Significant accounting estimates and judgements
78	7.2 Change in accounting policies
81	7.3 General accounting policies
82	7.4 New standards and interpretations not yet implemented
83	7.5 Group companies



# CONSOLIDATED INCOME STATEMENT

1 JANUARY – 31 DECEMBER

		2019				2018	
		Adjusted results	Acqui- sition- related	Reported results	Adjusted results	Acqui- sition- related	Reported results
DKK million	Note						
Revenue	1.1, 1.2	78,572	-	78,572	73,623	-	73,623
Staff costs	5.3, 6.4	(49,072)	-	(49,072)	(46,046)	-	(46,046)
Consumables		(7,585)	-	(7,585)	(7,007)	-	(7,007)
Other operating expenses		(16,486)	-	(16,486)	(15,722)	-	(15,722)
Depreciation and amortisation <sup>1)</sup>	2.1, 3.6	(1,562)	-	(1,562)	(588)	-	(588)
Operating profit before other items		3,867	-	3,867	4,260	-	4,260
Other income and expenses, net	1.4	(93)	-	(93)	(125)	-	(125)
Royalty		(1,285)	-	(1,285)	(1,109)	-	(1,109)
Goodwill impairment	3.7	-	(304)	(304)	-	(829)	(829)
Amortisation/impairment of brands and customer contracts	3.6	-	(108)	(108)	-	(199)	(199)
Operating profit	1.1, 6.1	2,489	(412)	2,077	3,026	(1,028)	1,998
Financial income	4.3	49	-	49	64	-	64
Financial expenses	4.3	(745)	-	(745)	(647)	-	(647)
Profit before tax		1,793	(412)	1,381	2,443	(1,028)	1,415
Income tax	1.5, 1.6	(591)	19	(572)	(505)	70	(435)
Net profit from continuing operations		1,202	(393)	809	1,938	(958)	980
Net profit/(loss) from discontinued operations	3.1	100	(157)	(57)	(140)	(746)	(886)
Net profit		1,302	(550)	752	1,798	(1,704)	94
Attributable to:							
The owner of ISS Global A/S				731			84
Non-controlling interests				21			10
Net profit				752			94

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

Background for the income statement presentation is described in 7.3, General accounting policies, p. 81.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

DKK million	Note	2019	2018
<b>Net profit</b>		<b>752</b>	<b>94</b>
<b>Items not to be reclassified to the income statement in subsequent periods</b>			
Actuarial gains/(losses)	5.3	84	(79)
Impact from asset ceiling regarding pensions	5.3	(49)	(8)
Tax	1.6	(3)	18
<b>Items to be reclassified to the income statement in subsequent periods</b>			
Foreign exchange adjustments of subsidiaries and non-controlling interests	4.1	292	(148)
Fair value adjustments of net investment hedges	4.1	(143)	-
Recycling of accumulated foreign exchange adjustments on country exits	4.1	(115)	-
<b>Other comprehensive income</b>		<b>66</b>	<b>(217)</b>
<b>Comprehensive income</b>		<b>818</b>	<b>(123)</b>
<b>Attributable to:</b>			
The owner of ISS Global A/S		798	(133)
Non-controlling interests		20	10
<b>Comprehensive income</b>		<b>818</b>	<b>(123)</b>



# CONSOLIDATED STATEMENT OF CASH FLOWS

1 JANUARY – 31 DECEMBER

DKK million	Note	2019	2018
Operating profit before other items		3,867	4,260
Operating profit before other items from discontinued operations	3.1	125	134
Depreciation and amortisation	2.1, 3.6	1,562	651
Share-based payments		16	18
Changes in working capital	2.5	(2,031)	130
Changes in provisions, pensions and similar obligations		225	(195)
Other expenses paid		(16)	(17)
Interest received from companies within the ISS Group		8	28
Interest received, external		56	25
Interest paid to companies within the ISS Group		(5)	(28)
Interest paid, external		(680)	(476)
Income tax paid	1.5	(617)	(624)
Payments related to royalties		(1,235)	(1,253)
<b>Cash flow from operating activities</b>		<b>1,275</b>	<b>2,653</b>
Acquisition of businesses	3.4	(75)	(35)
Divestment of businesses	3.3	691	38
Acquisition of intangible assets and property, plant and equipment		(935)	(894)
Disposal of intangible assets and property, plant and equipment		38	81
(Acquisition)/disposal of financial assets, net		(51)	(22)
<b>Cash flow from investing activities</b>		<b>(332)</b>	<b>(832)</b>
Proceeds from bonds	4.2	3,695	-
Repayment of bonds	4.2	(6,717)	-
Repayment of lease liabilities	4.2	(1,066)	(55)
Other financial payments, net	4.2	(308)	(234)
Dividends paid to shareholders		(1,500)	(1,500)
Payments (to)/from companies within the ISS Group, net		633	657
Dividends paid to non-controlling interests		(10)	(3)
<b>Cash flow from financing activities</b>		<b>(5,273)</b>	<b>(1,135)</b>
<b>Total cash flow</b>		<b>(4,330)</b>	<b>686</b>
Cash and cash equivalents at 1 January		6,826	6,220
Total cash flow		(4,330)	686
Foreign exchange adjustments		173	(80)
<b>Cash and cash equivalents at 31 December</b>	4.2	<b>2,669</b>	<b>6,826</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

DKK million	Note	2019	2018
<b>ASSETS</b>			
Intangible assets	3.6, 3.8	17,547	17,294
Property, plant and equipment and leases	2.1	4,409	1,542
Deferred tax assets	1.6	662	706
Other financial assets		320	299
<b>Non-current assets</b>		<b>22,938</b>	<b>19,841</b>
Inventories		275	257
Trade receivables	2.2	12,085	9,858
Tax receivables		87	73
Receivables from companies within the ISS Group		120	60
Other receivables	2.3	2,998	2,535
Cash and cash equivalents	4.2	2,669	6,826
Assets held for sale	3.2	1,773	3,269
<b>Current assets</b>		<b>20,007</b>	<b>22,878</b>
<b>Total assets</b>		<b>42,945</b>	<b>42,719</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to the owner of ISS Global A/S		2,687	3,389
Non-controlling interests		24	14
<b>Total equity</b>	4.1	<b>2,711</b>	<b>3,403</b>
Loans and borrowings	4.2	16,198	17,289
Pensions and similar obligations	5.3	1,249	1,161
Deferred tax liabilities	1.6	573	558
Provisions	2.6	258	199
<b>Non-current liabilities</b>		<b>18,278</b>	<b>19,207</b>
Loans and borrowings	4.2	3,841	2,290
Trade and other payables		6,759	6,478
Tax payables		273	247
Other liabilities	2.4	9,870	9,307
Provisions	2.6	308	158
Liabilities held for sale	3.2	905	1,629
<b>Current liabilities</b>		<b>21,956</b>	<b>20,109</b>
<b>Total liabilities</b>		<b>40,234</b>	<b>39,316</b>
<b>Total equity and liabilities</b>		<b>42,945</b>	<b>42,719</b>

# 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	Trans- lation reserve <sup>1)</sup>	Total	Non-con- trolling interests	Total equity
2019							
Equity at 1 January		180	3,780	(571)	3,389	14	3,403
Net profit		-	731	-	731	21	752
Other comprehensive income		-	32	35	67	(1)	66
Comprehensive income		-	763	35	798	20	818
Dividends paid to shareholders	4.1	-	(1,500)	-	(1,500)	-	(1,500)
Dividends paid to non-controlling interests		-	-	-	-	(10)	(10)
Transactions with the owner		-	(1,500)	-	(1,500)	(10)	(1,510)
Changes in equity		-	(737)	35	(702)	10	(692)
Equity at 31 December		180	3,043	(536)	2,687	24	2,711
2018							
Equity at 1 January		180	2,189	(423)	1,946	10	1,956
Net profit		-	84	-	84	10	94
Other comprehensive income		-	(69)	(148)	(217)	0	(217)
Comprehensive income		-	15	(148)	(133)	10	(123)
Capital increase	4.1	0	3,073	-	3,073	-	3,073
Dividends paid to shareholders	4.1	-	(1,500)	-	(1,500)	-	(1,500)
Acquisition of non-controlling interests		-	3	-	3	(3)	-
Dividends paid to non-controlling interests		-	-	-	-	(3)	(3)
Transactions with the owner		0	1,576	-	1,576	(6)	1,570
Changes in equity		0	1,591	(148)	1,443	4	1,447
Equity at 31 December		180	3,780	(571)	3,389	14	3,403

<sup>1)</sup> At 31 December 2019, DKK 34 million (2018: gains of DKK 28 million) of accumulated foreign exchange losses related to discontinued operations.

## OPERATING PROFIT AND TAX

### SECTION 1

#### 1.1 SEGMENT INFORMATION

ISS is a leading, global provider of workplace and facility service solutions operating in 63 countries. 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. Countries where we do not have a full country support structure, which are managed by Global Operations, are combined in a separate segment "Other countries". An overview of the grouping of countries into regions is presented in 7.5, Group companies.

The segment reporting is prepared in a manner consistent with the Group's internal management and reporting structure and excludes discontinued operations. Transactions between reportable segments are made on market terms.

Disclosures relating to segment assets and liabilities are disclosed in 6.1, Other segment information together with reconciliation of segment information to the consolidated amounts.

DKK million	Continental Europe	Northern Europe	Asia & Pacific	Americas	Other countries	Total segments
<b>2019</b>						
<b>Revenue <sup>1)</sup></b>	<b>30,608</b>	<b>25,037</b>	<b>13,739</b>	<b>8,459</b>	<b>760</b>	<b>78,603</b>
Depreciation and amortisation <sup>2)</sup>	(718)	(526)	(219)	(99)	-	(1,562)
<b>Operating profit before other items</b>	<b>1,534</b>	<b>1,119</b>	<b>753</b>	<b>448</b>	<b>38</b>	<b>3,892</b>
Operating margin	5.0%	4.5%	5.5%	5.3%	5.0%	5.0%
Other income and expenses, net	(62)	(23)	(7)	(1)	-	(93)
Royalty	(522)	(431)	(230)	(102)	-	(1,285)
Goodwill impairment	(304)	-	-	-	-	(304)
Amortisation/impairment of brands and customer contracts	(19)	(36)	(26)	(27)	-	(108)
<b>Operating profit</b>	<b>627</b>	<b>629</b>	<b>490</b>	<b>318</b>	<b>38</b>	<b>2,102</b>
<b>2018</b>						
<b>Revenue <sup>1)</sup></b>	<b>28,006</b>	<b>24,413</b>	<b>12,725</b>	<b>7,847</b>	<b>667</b>	<b>73,658</b>
Depreciation and amortisation <sup>2)</sup>	(256)	(176)	(108)	(43)	(5)	(588)
<b>Operating profit before other items</b>	<b>1,725</b>	<b>1,538</b>	<b>847</b>	<b>228</b>	<b>(1)</b>	<b>4,337</b>
Operating margin	6.2%	6.3%	6.7%	2.9%	(0.1)%	5.9%
Other income and expenses, net	(114)	3	4	(18)	-	(125)
Royalty	(453)	(387)	(193)	(76)	-	(1,109)
Goodwill impairment	(759)	(24)	(19)	(27)	-	(829)
Amortisation/impairment of brands and customer contracts	(51)	(75)	(48)	(25)	-	(199)
<b>Operating profit</b>	<b>348</b>	<b>1,055</b>	<b>591</b>	<b>82</b>	<b>(1)</b>	<b>2,075</b>

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

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

## 1.1 SEGMENT INFORMATION (CONTINUED)

### REVENUE BY COUNTRY – MORE THAN 5% OF GROUP

DKK million

	2019	2018
UK & Ireland	11,205	10,543
USA & Canada	7,629	7,072
Switzerland	5,507	5,242
Germany	4,891	3,161
Spain & Portugal	4,880	4,787
France	4,566	4,755
Norway	4,028	4,047
Australia & New Zealand	3,973	3,734
Denmark (ISS Global A/S's country of domicile)	3,789	3,807
Other countries <sup>1)</sup>	28,104	26,475
<b>Total</b>	<b>78,572</b>	<b>73,623</b>

<sup>1)</sup> Including unallocated items and eliminations.

### ACCOUNTING POLICY

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 tax.

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.

## 1.2 REVENUE

### PERFORMANCE OBLIGATIONS

Revenue is generated from rendering of workplace and facility service solutions. Our services are provided to the customer on a daily basis continuously over the term of the contract and the customer simultaneously receives and consumes the benefits provided by the Group. Thus, the performance obligations are satisfied over time.

We group our customers into key accounts, large and medium, and small and route-based customers, which reflects the different needs and requirements of the different customer categories.

### DISAGGREGATION OF REVENUE

We disaggregate revenue based on customer type and geographical region as we believe that these best depict how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. Disaggregation of revenue based on geographical region is disclosed in 1.1, Segment information.

DKK million

	2019	2018
Key account customers	49,207	43,654
Large and medium customers	24,437	24,391
Small and route-based customers	4,928	5,578
<b>Total</b>	<b>78,572</b>	<b>73,623</b>

### REVENUE BACKLOG

Our revenue base consists of a mix of yearly contracts, which are renewed tacitly, and thousands of multi-year contracts, the majority of which have an initial term of three to five years. Depending on the size and complexity of the contract, the transition and mobilisation period is normally between six and twelve months for our key accounts. Contracts regularly include options for the customer to terminate for convenience within three to nine months, however, our customer retention rate, which is around 91%, and 94% for our key accounts, supports that these options are rarely exercised.

## 1.2 REVENUE (CONTINUED)

The majority of our revenue (approx. 84%) is portfolio revenue, i.e. revenue related to services that we are obligated to deliver on a recurring basis over the term of the contract, whereas the remaining part of our revenue is non-recurring, in the form of above-base work, e.g. capital projects. Since above-base work is not committed as part of the main customer contract it is excluded from the transaction price to be allocated to the remaining performance obligation (revenue backlog).

In estimating the revenue backlog, the Group has applied the exemptions of IFRS 15 and does not disclose revenue backlog for contracts:

- with an original duration of less than 12 months; and
- invoiced based on time incurred, i.e. contracts where the Group invoices a fixed amount for each hour of service provided.

Committed savings glidepaths are taken into consideration whereas future inflation is excluded from the estimates.

For our **key accounts** and **large and medium customers**, a significant number of contracts in terms of value are descoped based on a term of less than 12 months (due to termination for convenience clauses) and some contracts are descoped on the basis that they are invoiced based on time incurred.

In terms of our **small and route-based customers**, the vast majority is descoped based on either of the two exemptions. The remaining customers in scope comprise less than 1% of Group revenue and due to immateriality revenue backlog is therefore not disclosed.

In conclusion, the amounts disclosed in the maturity profile above are significantly lower than reported revenue and will likely not reflect the degree of certainty in future revenue (and cash inflows) to the Group – both due to the exemptions and due to non-portfolio revenue not being considered part of the revenue backlog. Please refer to Contract maturity, p. 7 for further information.

At 31 December, the revenue backlog (including contracts won but not yet started) was as follows:

DKK million	2019			2018		
	Key account customers	Large and medium customers	Total	Key account customers	Large and medium customers	Total
< 1 year	14,812	4,822	19,634	12,938	4,527	17,465
1-2 years	10,933	2,769	13,702	10,444	2,445	12,889
2-3 years	7,130	1,129	8,259	7,914	1,346	9,260
3-4 years	5,670	407	6,077	5,225	665	5,890
4-5 years	3,758	252	4,010	4,246	421	4,667
> 5 years	13,542	256	13,798	15,011	1,362	16,373
<b>Total</b>	<b>55,845</b>	<b>9,635</b>	<b>65,480</b>	<b>55,778</b>	<b>10,766</b>	<b>66,544</b>

### ACCOUNTING POLICY

Revenue from contracts with customers is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. Control is transferred over time as the customer simultaneously receives and consumes the benefits provided by the Group. Services are invoiced on a monthly basis.

Revenue excludes amounts collected on behalf of third parties, e.g. VAT and duties.

The input method is used to measure progress towards complete satisfaction of the service because there is a direct relationship between labour hours and costs incurred, and the transfer of services to the customer. The Group recognises revenue on the basis of the labour hours and costs expended relative to the total expected labour hours and costs to complete the service.

For key accounts and other large contracts, the transaction price may include variable consideration based on achievement of certain key performance indicators. Management estimates variable consideration based on the most likely amount to which it expects to be entitled on a contract by contract basis. Management makes a detailed assessment of the amount of revenue expected to be received and the probability of success in each case. Variable consideration is included in revenue as services are performed to the extent that it is highly probable that the amount will not be subject to significant reversal.

Key account contracts are often modified in respect of service requirements. Generally, modifications are agreed with the customer in accordance with a specified change management procedure and accounted for going forward with no impact on recognised revenue up to the date of modifications.

## 1.2 REVENUE (CONTINUED)

### 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 geographies 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 the nature of its promise is to provide the specified services, i.e. ISS is the principal, or its role is to arrange for another party to provide the services, i.e. ISS is acting as an agent. This is based on an evaluation of whether ISS controls the specified services before it is transferred to the customer. Control is considered transferred if ISS is the primary responsible for fulfilment and acceptability of the services or has discretion in setting prices.

## 1.3 TRANSLATION AND OPERATIONAL CURRENCY RISK

The Group's exposure to currency risk on transaction level is low since 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. The exposure to translation of net assets of foreign subsidiaries is described in section 4.7, Currency risk.

### IMPACT ON THE INCOME STATEMENT

In 2019, revenue and operating profit before other items increased DKK 637 million and DKK 34 million (2018: decreased DKK 2,368 million and DKK 148 million) due to a weighted average increase in relevant exchange rates of 0.8% relative to DKK (2018: decrease of 3.4%).

Development in exchange rates between DKK and the functional currencies of Group companies had a positive impact on operating profit in Americas of 10.9% and Asia & Pacific of 3.0%, while the impact in Europe was negative with 0.3%.

### FOREIGN CURRENCY SENSITIVITY

A 10%-change (except for EUR: 1%-change) in relevant currencies, with all other variables held constant, would have impacted revenue and operating profit before other items with the amounts below.

DKK million	Operating profit before other items		
	Revenue		Royalty
GBP	1,057	51	(19)
USD	746	33	(9)
CHF	551	50	(10)
NOK	402	34	(7)
AUD	377	19	(8)
TRY	318	25	(6)
SEK	288	11	(5)
EUR	253	10	(4)
Other	1,198	63	(31)
<b>Total</b>	<b>5,190</b>	<b>296</b>	<b>(99)</b>

Functional currency	Change in average FX rate 2018 to 2019	Change in average FX rate 2017 to 2018
GBP	1.0 %	(0.8)%
USD	5.6 %	(4.3)%
CHF	4.0 %	(3.6)%
NOK	(2.4)%	(2.7)%
AUD	(1.8)%	(6.7)%
TRY	(11.9)%	(26.2)%
SEK	(3.0)%	(5.9)%
EUR	0.2 %	0.2 %



## 1.4 OTHER INCOME AND EXPENSES, NET

DKK million	2019	2018
Gain on divestments	-	18
<b>Other income</b>	<b>-</b>	<b>18</b>
Loss on divestments	(84)	(121)
Acquisition and integration costs	(9)	(22)
<b>Other expenses</b>	<b>(93)</b>	<b>(143)</b>
<b>Other income and expenses, net</b>	<b>(93)</b>	<b>(125)</b>

**Gain on divestments** in 2018, mainly related to the divestment of the Direct Cleaning business in Denmark.

**Loss on divestments** mainly comprised additional divestment and settlement costs related to prior-year divestments in the UK and the Netherlands. Furthermore, divestment costs were recognised in relation to two businesses in Northern Europe and Asia & Pacific, which were classified as held for sale. In 2018, the loss mainly related to the divestment of the single-service cleaning business in the Netherlands and the Group's activities in Greece (country exit).

**Acquisition and integration costs** mainly related to the acquisition of Front of House activities in Finland, JH Catering in Austria and Pluralis in Germany. In 2018, costs mainly related to the continued integration of Guckenheim in the USA.

### ACCOUNTING POLICY

**Other income and expenses, net** consists of recurring and non-recurring items that management does not consider to be part of the Group's ordinary operations, i.e. gains and losses on divestments, remeasurement of disposal groups classified as held for sale, the winding-up of operations, disposal of property and acquisition and integration costs.

## 1.5 INCOME TAX

### OUR APPROACH TO TAX AND TAX RISKS

We are committed to comply with applicable tax 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. As a good corporate citizen, we will pay applicable taxes, and at the same time ensure a competitive effective tax rate 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 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-and-guidelines>

DKK million	2019	2018
Current tax	519	641
Deferred tax	113	(130)
Adjustments relating to prior years, net	(41)	(6)
<b>Income tax (adjusted)</b>	<b>591</b>	<b>505</b>
<b>Income tax (acquisition-related)</b>	<b>(19)</b>	<b>(70)</b>
<b>Income tax (reported)</b>	<b>572</b>	<b>435</b>

### EFFECTIVE TAX RATE

In %	2019	2018
Statutory income tax rate in Denmark	22.0 %	22.0 %
Foreign tax rate differential, net	(0.9)%	0.2 %
<b>Total</b>	<b>21.1 %</b>	<b>22.2 %</b>
Non-tax deductible expenses less non-taxable income	1.8 %	(3.7)%
Non-taxable gains/losses on divestments	0.0 %	0.7 %
Adjustments relating to prior years, net	(2.4)%	(0.3)%
Change in valuation of net tax assets	5.6 %	(2.5)%
Effect of changes in tax rates	2.3 %	1.4 %
Other taxes	4.5 %	2.9 %
<b>Effective tax rate (profit before tax (adjusted))</b>	<b>32.9 %</b>	<b>20.7 %</b>
<b>Effective tax rate (profit before tax (reported))</b>	<b>41.4 %</b>	<b>30.7 %</b>

**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 gain/losses on divestments** was mainly related to UK Landscaping in 2018.

**Adjustments relating to prior years, net** were mainly related to adjustments of tax deductions (temporary differences) in the final tax return.

**Change in valuation of net tax assets** mainly related to a valuation allowance on deferred tax assets in France. In 2018, the change 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** in 2019 and 2018, related to reduction of the corporate tax rate in France from 33% to 25% over the period 2018-2022.

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

### 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 prior years and tax paid on account.

## 1.6 DEFERRED TAX

### DEVELOPMENT IN DEFERRED TAX

DKK million	2019	2018
Deferred tax liabilities, net at 1 January	(148)	54
Adjustments relating to prior years, net	10	54
Foreign exchange adjustments	(10)	7
Acquisitions and divestments, net	(21)	26
Tax on other comprehensive income	3	(18)
Reclassification to Assets/(Liabilities) held for sale	(17)	(71)
Tax on profit before tax (adjusted)	113	(130)
Tax effect of amortisation/impairment of brands and customer contracts	(19)	(70)
<b>Deferred tax liabilities, net at 31 December</b>	<b>(89)</b>	<b>(148)</b>

**Adjustments relating to prior years, net** in 2019 and 2018 were mainly related to adjustment of tax deductions (temporary differences) in the final tax returns.

**Acquisitions and divestments, net** in 2019 mainly related to the divestment of the Hygiene & Prevention business in France. In 2018, acquisitions and divestments, net mainly related to the divestment of the Group's activities in Greece (country exit).

**Tax on other comprehensive income** in 2019 mainly comprised tax on actuarial gains on pensions in Switzerland. In 2018, tax on comprehensive income primarily comprised deferred tax on actuarial losses on pensions in Switzerland.

DEFERRED TAX SPECIFICATION DKK million	Deferred tax assets		Deferred tax liabilities	
	2019	2018	2019	2018
Tax losses carried forward	692	524	-	-
Goodwill	4	7	375	366
Brands	-	-	6	8
Customer contracts	15	18	89	105
Property, plant and equipment	76	55	564	93
Provisions and other liabilities	816	360	635	422
Pensions	155	178	-	-
Set-off within legal tax units and jurisdictions	(1,096)	(436)	(1,096)	(436)
<b>Total</b>	<b>662</b>	<b>706</b>	<b>573</b>	<b>558</b>

### UNRECOGNISED DEFERRED TAX ASSETS

At 31 December 2019, the Group had unrecognised deferred tax assets which comprised tax losses carried forward and other deductible temporary differences of DKK 582 million (2018: DKK 480 million) for continuing operations primarily relating to France and the Netherlands. The increase compared to 2018, was mainly due to a valuation allowance of recognised tax assets in France following a reassessment of expected future taxable income.

At 31 December 2019, DKK 175 million (2018: DKK 268 million) of the total unrecognised deferred tax assets related to discontinued operations.

Unrecognised tax losses can be carried forward indefinitely in the individual countries, except for the Netherlands, where tax losses can be carried forward for 9 years. 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.

### UNCERTAIN TAX POSITIONS

As part of operating a global business, disputes with tax authorities around the world may occur. Uncertain tax positions include ongoing disputes with tax authorities in certain jurisdictions and have been provided for in accordance with the accounting policies. Management believes that the provisions made are adequate. However, the actual obligations may deviate as they depend on the result of litigations and settlements with the relevant tax authorities. The final outcome of some of the ongoing disputes is expected to be determined during 2020.

## 1.6 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 local tax restrictions in utilisation of tax losses. The assessment of future taxable income is based on financial budgets approved by management and expectations on the operational development, mainly in terms of organic growth and operating margin in the following five years as well as planned adjustments to capital structure in each country.

The possible outcome of **uncertain tax positions** are measured based on management's best estimate of the amount required to settle the obligation and recognised in deferred tax or income tax depending on the tax position.

### ACCOUNTING POLICY

**Deferred tax** is provided using the liability method on temporary differences between tax bases of assets and liabilities and their carrying amounts. 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.

## OPERATING ASSETS AND FREE CASH FLOW

### SECTION 2

#### 2.1 PROPERTY, PLANT AND EQUIPMENT AND LEASES

DKK million	Right-of-use assets	Property, plant and equipment	2019	2018
Cost at 1 January	-	4,477	4,477	5,023
Adoption of IFRS 16	3,436	-	3,436	-
Transfer of finance leases	360	(360)	-	-
Foreign exchange adjustments	45	80	125	(76)
Acquisitions	-	5	5	1
Additions	698	673	1,371	881
Divestments	(265)	(16)	(281)	(34)
Disposals	(94)	(461)	(555)	(583)
Reclassification from/(to) Intangible assets	-	3	3	(39)
Reclassification to Assets held for sale	(143)	(38)	(181)	(696)
<b>Cost at 31 December</b>	<b>4,037</b>	<b>4,363</b>	<b>8,400</b>	<b>4,477</b>
Depreciation at 1 January	-	(2,935)	(2,935)	(3,448)
Transfer of finance leases	(113)	113	-	-
Foreign exchange adjustments	1	(66)	(65)	41
Impairment	-	(16)	(16)	(13)
Depreciation	(972)	(445)	(1,417)	(519)
Divestments	5	13	18	33
Disposals	27	427	454	520
Reclassification from/(to) Intangible assets	-	(11)	(11)	1
Reclassification to Assets held for sale	-	(19)	(19)	450
<b>Depreciation at 31 December</b>	<b>(1,052)</b>	<b>(2,939)</b>	<b>(3,991)</b>	<b>(2,935)</b>
<b>Carrying amount at 31 December</b>	<b>2,985</b>	<b>1,424</b>	<b>4,409</b>	<b>1,542</b>

**Additions** of right-of-use assets in 2019 were negatively impacted by reassessment of extension options of certain properties as a result of major contract developments in the year (including major key account wins and losses) as well as the Group's efficiency programme launched in November. The impact was around DKK 300 million.

#### LEASE LIABILITY

The carrying amount of lease liabilities and the movements in the year are disclosed in 4.2, Loans and borrowings. The maturity profile is disclosed in 4.6, Liquidity risk.

#### LEASE-RELATED COSTS RECOGNISED IN THE INCOME STATEMENT

DKK million	2019
Depreciation of right-of-use assets	972
Interest expenses on lease liabilities	94
Short-term leases	180
Leases of low value assets	127
Variable lease payments	10
<b>Total</b>	<b>1,383</b>

## 2.1 PROPERTY, PLANT AND EQUIPMENT AND LEASES (CONTINUED)

### SIGNIFICANT ACCOUNTING JUDGEMENT

**Lease term** Several of ISS's office buildings have no contractual fixed lease term or contains an extension option. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised. Management considers all relevant facts and circumstances that create an economic incentive to exercise the extension option.

The lease term for contracts without an end date is set to ten years for head office and accessory buildings, whereas all other leases with no definite end date are set to five years.

### ACCOUNTING POLICY

The Group recognises **right-of-use assets** at the commencement date of the lease. Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities (including extension options).

Cost comprises the amount of lease liabilities recognised, initial direct costs and dismantling and restoration cost incurred and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the asset.

#### Estimated useful life

Properties	5-10 years
Cars	3-5 years
Other equipment	2-5 years

Right-of-use assets are subject to impairment tests, see 3.8, Impairment tests.

The Group also has certain leases with lease terms of 12 months or less and leases of low-value assets, such as smaller cleaning equipment, IT equipment and office furniture. The Group applies the "short-term lease" and "lease of low-value assets" recognition exemptions for these leases.

Lease payments for short-term leases and leases of low-value assets are recognised in Other operating expenses.

**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.

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 carrying amount of the item is derecognised when replaced and 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 methods, useful lives and residual values are reassessed at each reporting date and adjusted prospectively, if appropriate.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. 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) 3-10 years
Buildings	20-40 years

Land is not depreciated.

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.



## 2.2 TRADE RECEIVABLES AND CREDIT RISK

### EXPOSURE TO CREDIT RISK

We assess the Group's exposure to credit risk as low, mainly due to our diversified customer portfolio, both in terms of geography, industry sector and customer size. Divestments in recent years, including our strategic divestment programme, are aiming at simplification and risk reduction, and have further contributed to the low risk assessment. As a consequence, our loss allowance has gradually been reduced in recent years.

In 2019, amounts written off as uncollectible remained low with write-offs amounting to 0.4% of gross trade receivables (2018: 0.3%).

Exposure to credit risk on trade receivables and expected credit losses are managed locally in the operating entities and credit limits are set as deemed appropriate 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 is shown below.

In 2019, trade receivables was DKK 12,085 million (2018: DKK 9,858 million). The increase was significantly impacted by the decision to tighten our principles for utilisation of factoring. At 31 December 2019, utilisation of factoring was DKK 1.4 billion (31 December 2018: DKK 2.6 billion). In addition, the launch of the Deutsche Telekom contract and general high key account growth increased the carrying amount of trade receivables. Despite that, our focus on cash improvement initiatives resulted in debtor days improving to 49 days (adjusted for factoring) (2018: 50 days).

	2019			2018		
DKK million	Gross	Loss allowance	Carrying amount	Gross	Loss allowance	Carrying amount
Continental Europe	5,532	(89)	5,443	4,213	(77)	4,136
Northern Europe	3,548	(30)	3,518	2,955	(22)	2,933
Asia & Pacific	2,066	(47)	2,019	1,982	(50)	1,932
Americas	1,110	(15)	1,095	863	(12)	851
Other countries	11	(1)	10	7	(1)	6
<b>Total</b>	<b>12,267</b>	<b>(182)</b>	<b>12,085</b>	<b>10,020</b>	<b>(162)</b>	<b>9,858</b>

	2019			2018		
DKK million	Gross	Loss allowance	Carrying amount	Gross	Loss allowance	Carrying amount
Not past due	10,340	(0)	10,340	8,042	(0)	8,042
Past due 1 to 60 days	1,281	(6)	1,275	1,279	(2)	1,277
Past due 61 to 180 days	309	(5)	304	347	(5)	342
Past due 181 to 360 days	106	(26)	80	150	(22)	128
More than 360 days	231	(145)	86	202	(133)	69
<b>Total</b>	<b>12,267</b>	<b>(182)</b>	<b>12,085</b>	<b>10,020</b>	<b>(162)</b>	<b>9,858</b>

## 2.2 TRADE RECEIVABLES AND CREDIT RISK (CONTINUED)

### ALLOWANCE FOR EXPECTED CREDIT LOSSES

DKK million

	2019	2018
Loss allowance at 1 January	(162)	(248)
Foreign exchange adjustments	(1)	-
Divestments	0	40
Provision for expected credit losses	(77)	(21)
Expected credit losses reversed	14	4
Write-off	44	33
Reclassification to/(from) Assets held for sale	(0)	30
<b>Loss allowance at 31 December</b>	<b>(182)</b>	<b>(162)</b>

### ACCOUNTING POLICY

Trade receivables comprise invoiced and unbilled revenue and are recognised initially corresponding to the transaction price and subsequently measured at amortised cost. Generally, due to the short-term nature of trade receivables, amortised cost will equal the invoiced amount less loss allowance for expected credit losses.

The Group applies the simplified approach in calculating expected credit losses and recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix to calculate expected credit losses. Provision rates are based on days past due for customer groups with similar credit risk characteristics, e.g. geographical region and customer type. The calculation reflects historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit before other items. Subsequent recovery of amounts previously written off are credited against the same line item.

## 2.3 OTHER RECEIVABLES

DKK million	2019	2018
Transition and mobilisation costs	861	487
Prepayments to suppliers	637	499
Supplier rebates and bonuses	607	559
Sign-on fees	190	219
Receivable sales price from divestments	71	49
Pass-through costs	75	70
Securities	55	39
Currency swaps	41	13
Other	461	600
<b>Other receivables</b>	<b>2,998</b>	<b>2,535</b>

In 2019, other receivables increased DKK 463 million to DKK 2,998 million. The launch of the Deutsche Telekom contract was the main driver accounting for DKK 391 million of the increase as well as the generally strong key account growth across the Group. This was partly offset by the payment of the receivable related to a one-off settlement in Continental Europe of around DKK 300 million.

**Transition and mobilisation costs** comprised directly related costs incurred in order for ISS to fulfil the performance obligations under certain large contracts, most significantly in Germany, Denmark and the UK. The increase in 2019 was mainly related to Deutsche Telekom in Germany as well as a few large key account contracts in Denmark and the UK. Amortisation for the year was DKK 87 million.

**Prepayments to suppliers** comprised various upfront supplier payments related to ongoing projects and above-base work (where revenue has not yet been recognised) as well as utilities, insurance and licenses. The majority related to the UK, Turkey and Norway.

**Supplier rebates and bonuses** comprised various upfront payments and volume-related discounts obtained from suppliers and reflects the Group's efforts in recent years to consolidate the number of suppliers and drive synergies and cost savings. The most significant receivables were in the UK, Germany, France and Denmark.

**Sign-on fees** comprised upfront discounts to certain large customers, most significantly in the UK and on certain Global key accounts. Such fees are incurred in the ordinary course of business and amortised over the contract term.

**Other** comprised refunds from customers, VAT, accrued interests and other recoverable amounts. In 2018, a receivable related to a one-off settlement in Continental Europe was included with around DKK 300 million, which was paid in June 2019.

### SIGNIFICANT ACCOUNTING JUDGEMENT

Capitalisation of transition and mobilisation costs involves management's judgement to assess if the criteria for capitalisation are fulfilled. Management uses judgement to determine if the costs relate directly to the contract and are incurred in order for ISS to be able to fulfil the contract. In addition, management determines if the costs generate resources that will be used in satisfying the performance obligation and are expected to be recovered, i.e. reflected in the pricing of the contract.

### ACCOUNTING POLICY

**Transition and mobilisation costs** (costs to fulfil a contract) comprise costs related to launching certain large contracts such as transfer of employees from previous suppliers, site due diligence, planning and developing service plans. The cost includes internal direct costs and external costs e.g. to consultants.

**Transition and mobilisation costs** as well as **sign-on fees** are capitalised and amortised over the initial secured contract term consistent with ISS's transfer of the related services to the customer. Bid-related costs are expensed as incurred.

**Other receivables** are recognised initially at cost and subsequently at amortised cost. Due to the short-term nature of other receivables, amortised cost will equal the cost. Costs relating to sales work and securing contracts are recognised in the income statement as incurred.

## 2.4 OTHER LIABILITIES

DKK million	2019	2018
Accrued wages, pensions and holiday allowances	4,259	4,014
Tax withholdings, VAT etc.	2,914	2,656
Debt to companies within the ISS Group	1,388	1,237
Prepayments from customers	454	483
Contingent consideration and deferred payments	149	142
Other	706	775
<b>Other liabilities</b>	<b>9,870</b>	<b>9,307</b>

**Other** comprise customer discounts, accrued interests, etc.

## 2.5 CHANGES IN WORKING CAPITAL

DKK million	2019	2018
Changes in inventories	(27)	(15)
Changes in receivables	(2,529)	(444)
Changes in payables	525	589
<b>Changes in working capital</b>	<b>(2,031)</b>	<b>130</b>

**Changes in receivables** The increased negative impact compared to 2018 mainly reflects a decrease in utilisation of factoring of DKK 1,255 million with the largest decreases stemming from the USA, Denmark, Spain, Norway, France, Sweden and Switzerland. At 31 December 2019, the total off-balance value of these arrangements was DKK 1.4 billion (31 December 2018: DKK 2.6 billion). Furthermore, the launch of Deutsche Telekom contributed to a significant increase in trade receivables and other receivables (mainly transition and mobilisation costs) as explained in 2.2, Trade receivables and credit risk and 2.3, Other receivables. Finally, the generally strong organic growth contributed to additional capital tied up.

## 2.6 PROVISIONS

DKK million	Legal and labour-related cases	Self-insurance	Other	Total
Provisions at 1 January 2019	60	191	106	357
Foreign exchange adjustments	(1)	5	2	6
Additions	59	190	165	414
Used during the year	(59)	(148)	(5)	(212)
Unused amounts reversed	(6)	-	(12)	(18)
Unwind of discount and other financial expenses	-	1	-	1
Reclassification from Liabilities held for sale	19	-	1	20
Reclassification from Other liabilities	(1)	-	(1)	(2)
<b>Provisions at 31 December 2019</b>	<b>71</b>	<b>239</b>	<b>256</b>	<b>566</b>
Non-current	28	155	75	258
Current	43	84	181	308

**Self-insurance** In Hong Kong, the UK, Ireland, Australia and the USA, 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:

- **Hong Kong** – DKK 25.7 million (2018: DKK 24.9 million) yearly
- **UK** – DKK 26.3 million (2018: DKK 22.8 million) yearly aggregated limit and DKK 4 million (2018: DKK 4 million) per claim
- **Ireland** – DKK 7.5 million (2018: DKK 7.5 million) yearly aggregated limit and DKK 1.1 million (2018: DKK 1.1 million) per claim
- **Australia** – DKK 3.5 million (2018: DKK 3.5 million) per claim
- **USA** – DKK 3.3 million (2018: DKK 3.2 million) per claim

Furthermore, the provision included liability not insured under the global general liability insurance with a self-insured level of DKK 7.5 million worldwide, except for the USA where the self-insurance level is DKK 6.7 million (2018: DKK 7.5 million worldwide, except for the USA where the self-insurance level is DKK 6.5 million) per claim. Obligations and legal costs in relation to various insurance cases, if not covered by the insurance, were also included in the provision.

**Other** comprised various obligations such as restructuring costs, guarantee reserves, dismantling costs, closure of contracts, operational risks and costs of meeting obligations under onerous contracts.

In 2019, additions included DKK 150 million provided in relation to risks identified through changed systems in the UK and an onerous contract in Hong Kong. At 31 December 2019, provisions for onerous contracts amounted to DKK 31 million (2018: DKK 13 million).

### SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

**Onerous contracts** Our strategy to focus even more on large key accounts will increasingly lead to a customer base comprising larger and more complex contracts. The size and complexity of such contracts will often require us to incur significant transition and mobilisation costs before service delivery commences in order to fulfill the performance obligations under the contract.

Management assesses whether contracts may be onerous by estimating the expected future profitability. This involves estimating total contract revenue and the unavoidable costs of meeting the performance obligations under the contract, including any transition and mobilisation costs incurred. In estimating the expected future profitability management makes judgements. Certain customer contracts are complex facility management partnerships. In estimating unavoidable costs in relation to such contracts, management applies assumptions as to future realisation of costs driven by efficiencies and optimisations to be gained over the contract term as well as the effect of performance improvement initiatives. While ISS has inherent risk in this respect, ISS is by nature also dependent on aligning interest with the customer within the framework of the facility management partnership agreement for the benefit of both parties. Further, management makes judgement related to the contract term, taking any termination and extension options into consideration.

**Other provisions** Management makes judgements related to other provisions for various other matters and obligations, including related to which assumptions to apply under the relevant scenarios for an expected outcome.

**ACCOUNTING POLICY**

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.

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 leased 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 or right-of-use asset and depreciated accordingly.



## DIVESTMENTS AND STRATEGIC ACQUISITIONS

### SECTION 3

#### 3.1 DISCONTINUED OPERATIONS

In December 2018, 15 countries were classified as discontinued operations and assets held for sale. Of these, Argentina and Uruguay were divested in January 2019, Estonia was divested in July 2019 and Israel was divested in October 2019. Sales processes for the remaining 11 countries are proceeding and expected to be completed by 2020. The only significant divestment running behind is Chile. We remain committed to divest the business; however, the process in Chile has temporarily been paused until the political situation in the country allows for adequate valuation. Gains/losses related to the divestments are explained in 3.2, Assets and liabilities held for sale.

#### DISCONTINUED OPERATIONS

Argentina, Brazil, Brunei, Chile, the Czech Republic, Estonia, Hungary, Israel, Malaysia, the Philippines, Romania, Slovakia, Slovenia, Thailand and Uruguay.

Significant accounting estimates and judgements and Accounting policies, see 3.2, Assets and liabilities held for sale.

#### NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

DKK million	2019	2018
Revenue	5,739	6,179
Expenses <sup>1)</sup>	(5,614)	(6,045)
<b>Operating profit before other items</b>	<b>125</b>	<b>134</b>
Other income and expenses, net <sup>2)</sup>	90	(191)
Royalty	(120)	(117)
Goodwill impairment <sup>2)</sup>	(157)	(745)
Amortisation/impairment of brands and customer contracts	-	(4)
<b>Operating profit</b>	<b>(62)</b>	<b>(923)</b>
Financial income/(expenses), net	(7)	24
<b>Net profit/(loss) before tax</b>	<b>(69)</b>	<b>(899)</b>
Income tax	12	13
<b>Net profit/(loss) from discontinued operations</b>	<b>(57)</b>	<b>(886)</b>

<sup>1)</sup> Including depreciation and amortisation of DKK 0 million (2018: DKK 63 million).

<sup>2)</sup> Comprised the combined net loss from divestments and fair value remeasurements including recycling of accumulated foreign exchange adjustments.

#### CASH FLOW FROM DISCONTINUED OPERATIONS

DKK million	2019	2018
Cash flow from operating activities	(95)	18
Cash flow from investing activities	214	(86)
Cash flow from financing activities	(43)	32

## 3.2 ASSETS AND LIABILITIES HELD FOR SALE

### BUSINESSES CLASSIFIED AS HELD FOR SALE

At 31 December 2019, 13 businesses (2018: 17 businesses) were classified as held for sale comprising the remaining 11 countries (discontinued operations), one business in Asia & Pacific and one business in Northern Europe (new).

### INCOME STATEMENT EFFECT

In 2019, we divested four countries (discontinued operations) and the Hygiene & Prevention business in France. The divestments resulted in a net loss of DKK 418 million recognised in Goodwill impairment (loss of DKK 297 million) and Net profit from discontinued operations (loss of DKK 121 million) as follows:

- Hygiene & Prevention, DKK 297 million (loss)
- Argentina & Uruguay, DKK 5 million (gain)
- Estonia, DKK 17 million (loss)
- Israel, DKK 109 million (loss)

Recycling of accumulated foreign exchange adjustments recognised in equity had a positive impact on the loss in Israel of DKK 108 million, and a positive impact on the loss in Argentina & Uruguay of DKK 7 million.

Furthermore, fair value remeasurements resulted in a reversal of impairment losses recognised in previous years in relation to Romania of DKK 53 million being recognised in Net profit from discontinued operations.

### STATEMENT OF FINANCIAL POSITION

DKK million

	2019	2018
Goodwill	358	1,169
Customer contracts	40	25
Other non-current assets	383	481
Current assets	992	1,594
<b>Assets held for sale</b>	<b>1,773</b>	<b>3,269</b>
Non-current liabilities	167	277
Current liabilities	738	1,352
<b>Liabilities held for sale</b>	<b>905</b>	<b>1,629</b>

### SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group classifies non-current assets and disposal groups as held for sale when management assesses that their carrying amounts will be recovered through a sale rather than continuing use within one year from the classification. Management's assessment is based on an evaluation of whether the sale is highly probable and the asset or disposal group is available for immediate sale in its current condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset.

If a sale has not been concluded within one year, the period is extended if management assesses that the above criteria continue to be fulfilled.

On classification management estimates the fair value (the final sales price and expected costs to sell). Depending on the nature of the non-current assets and the disposal group's activity, assets and liabilities, the estimated fair value may be associated with 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 is described in 3.8, Impairment tests.

### 3.2 ASSETS AND LIABILITIES HELD FOR SALE (CONTINUED)

#### 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. 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 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.

A disposal group is presented as discontinued operations if it is a geographical area, i.e. a CGU (country exits), that either has been disposed of, or is classified as held for sale.

In the **income statement**, discontinued operations are excluded from the results of continuing operations and presented separately as Net profit 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 3.1, Discontinued operations.

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

### 3.3 DIVESTMENTS

The Group completed eight divestments in 2019 (2018: 12):

Company/activity	Country	Service type	Excluded from the income statement	Interest	Annual revenue <sup>1)</sup> (DKK million)	Number of employees <sup>1)</sup>
ISS Argentina	Argentina	Country exit	February	100%	146	1,351
ISS Uruguay	Uruguay	Country exit	February	100%	117	1,392
Public hospitals (Aragon Region)	Spain	Cleaning	February	Activities	112	582
ISS Estonia	Estonia	Country exit	August	100%	150	1,443
Inflight catering	Israel	Food	October	100%	299	392
ISS Israel	Israel	Country exit	November	100%	1,584	6,308
Direct Cleaning	Germany	Cleaning	November	Activities	329	1,955
Hygiene & Prevention	France	Property	December	100%	891	1,468
<b>Total</b>					<b>3,628</b>	<b>14,891</b>

<sup>1)</sup> Unaudited.

#### DIVESTMENT IMPACT

DKK million	2019	2018
Goodwill	425	9
Other non-current assets	582	48
Current assets	1,051	299
Non-current liabilities	(178)	(9)
Loans and borrowings	(227)	-
Current liabilities	(741)	(176)
<b>Net assets disposed</b>	<b>912</b>	<b>171</b>
Gain/(loss) on divestment of businesses, net	(121)	(103)
Divestment costs	250	216
<b>Consideration received</b>	<b>1,041</b>	<b>284</b>
Cash and cash equivalents in divested businesses	(194)	(126)
<b>Cash consideration received</b>	<b>847</b>	<b>158</b>
Contingent and deferred consideration	(20)	82
Divestment costs paid	(136)	(202)
<b>Divestment of businesses (cash flow)</b>	<b>691</b>	<b>38</b>

#### DIVESTMENTS SUBSEQUENT TO 31 DECEMBER 2019

On 27 February 2020, we completed the divestment of PT ISS Parking Management in Indonesia with an annual revenue of approximately DKK 70 million and around 1,616 employees.

No further divestments were completed from 1 January to 28 February 2020.

#### ACCOUNTING POLICY

Gain or loss on disposal of an operation that is part of a CGU, includes a portion of the related goodwill allocated to that CGU. Goodwill related to the disposed operation is measured based on the fair value of the disposed operation relative to the fair value of the CGU retained.

### 3.4 ACQUISITIONS

The Group completed two acquisitions in 2019 (2018: one).

On 10 April 2019, ISS acquired 100% of the shares in JH Catering Ltd., a business catering company in Austria, with an estimated annual revenue of approximately DKK 63 million and 86 employees. The purchase price amounted to DKK 20 million and based on the provisionally determined fair values of net assets, goodwill amounted to DKK 20 million.

On 30 April 2019, ISS acquired the Front of House activities from Avarn Security Oy, with an estimated annual revenue of approximately DKK 61 million and 156 employees. The purchase price amounted to DKK 5 million and based on the provisionally determined fair values of net assets, goodwill amounted to DKK 20 million.

The acquisitions support our strategy by strengthening our self-delivery capabilities to our strategically important key account customers. Thus, goodwill added on acquisition is attributable mainly to: 1) service expertise, 2) synergies mainly by enhancing self-delivery capabilities, 3) platform for growth primarily within IFS, and 4) assembled work force.

#### ACQUISITION IMPACT

DKK million	2019	2018
Other non-current assets	5	1
Trade receivables	1	6
Other current assets	8	3
Pensions, deferred tax liabilities and other provisions	(4)	-
Other non-current liabilities	(4)	(1)
Other current liabilities	(23)	-
<b>Fair value of net assets acquired</b>	<b>(17)</b>	<b>9</b>
Goodwill	106	11
<b>Consideration transferred</b>	<b>89</b>	<b>20</b>
Cash and cash equivalents in acquired businesses	(7)	-
<b>Cash consideration transferred</b>	<b>82</b>	<b>20</b>
Contingent and deferred consideration	(7)	15
<b>Acquisition of businesses (cash flow)</b>	<b>75</b>	<b>35</b>

**Goodwill** mainly related to the two acquisitions in 2019 and an adjustment of a put option in Turkey of DKK 62 million.

#### ACQUISITIONS SUBSEQUENT TO 31 DECEMBER 2019

The Group completed no acquisitions from 1 January to 28 February 2020.

### 3.4 ACQUISITIONS (CONTINUED)

#### 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 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 assets, liabilities and contingent liabilities, initial recognition is based on provisionally determined fair values. Changes to fair values are adjusted against goodwill up until 12 months after the acquisition date and comparative figures are restated accordingly. Thereafter no adjustments are made to goodwill, and changes in fair values 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.

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.

### 3.5 PRO FORMA REVENUE AND OPERATING PROFIT

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	2019	2018
Revenue	78,572	73,623
Acquisitions	36	27
Divestments	(1,117)	(734)
<b>Pro forma revenue</b>	<b>77,491</b>	<b>72,916</b>
Operating profit before other items	3,867	4,260
Acquisitions	3	5
Divestments	(82)	26
<b>Pro forma operating profit before other items</b>	<b>3,788</b>	<b>4,291</b>

Pro forma revenue and operating profit before other items include adjustments relating to acquisitions and divestments estimated by local ISS management in the respective jurisdictions 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.

Pro forma revenue and operating profit before other items are presented for informational purposes and does not represent the results the Group would have achieved had the acquisitions and divestments during the year occurred on 1 January. The information should therefore not be used as the basis for or prediction of any annualised calculation.



### 3.6 INTANGIBLE ASSETS

DKK million	Goodwill	Brands	Customer contracts	Software and other intangible assets	Total
<b>2019</b>					
Cost at 1 January	17,728	54	3,875	1,453	23,110
Foreign exchange adjustments	221	1	19	14	255
Acquisitions	106	-	-	-	106
Additions	-	-	-	248	248
Divestments	(11)	-	-	(32)	(43)
Disposals	-	-	-	(76)	(76)
Reclassification to/(from) Property, plant and equipment	-	-	-	(3)	(3)
Reclassification to Assets held for sale	(37)	-	(24)	(0)	(61)
<b>Cost at 31 December</b>	<b>18,007</b>	<b>55</b>	<b>3,870</b>	<b>1,604</b>	<b>23,536</b>
Amortisation and impairment losses at 1 January	(1,491)	(18)	(3,363)	(944)	(5,816)
Foreign exchange adjustments	(4)	(1)	(2)	(7)	(14)
Amortisation	-	(11)	(97)	(145)	(253)
Impairment losses	(461)	-	-	(7)	(468)
Divestments	479	-	-	16	495
Disposals	-	-	-	72	72
Reclassification to/(from) Property, plant and equipment	-	-	-	11	11
Reclassification to Assets held for sale	(17)	-	9	(8)	(16)
<b>Amortisation and impairment losses at 31 December</b>	<b>(1,494)</b>	<b>(30)</b>	<b>(3,453)</b>	<b>(1,012)</b>	<b>(5,989)</b>
<b>Carrying amount at 31 December</b>	<b>16,513</b>	<b>25</b>	<b>417</b>	<b>592</b>	<b>17,547</b>
<b>2018</b>					
Cost at 1 January	20,279	51	4,322	1,490	26,142
Foreign exchange adjustments	(43)	3	2	(11)	(49)
Acquisitions	11	-	-	-	11
Additions	-	-	-	142	142
Divestments	(1,146)	-	(134)	(6)	(1,286)
Disposals	-	-	-	(110)	(110)
Reclassification from Property, plant and equipment	-	-	-	39	39
Reclassification to Assets held for sale	(1,373)	-	(315)	(91)	(1,779)
<b>Cost at 31 December</b>	<b>17,728</b>	<b>54</b>	<b>3,875</b>	<b>1,453</b>	<b>23,110</b>
Amortisation and impairment losses at 1 January	(2,083)	(7)	(3,595)	(965)	(6,650)
Foreign exchange adjustments	4	(1)	2	6	11
Amortisation	-	(10)	(189)	(132)	(331)
Impairment losses	(1,574)	-	(4)	(20)	(1,598)
Divestments	1,137	-	134	4	1,275
Disposals	-	-	-	92	92
Reclassification from Property, plant and equipment	-	-	-	(1)	(1)
Reclassification to Assets held for sale	1,025	-	289	72	1,386
<b>Amortisation and impairment losses at 31 December</b>	<b>(1,491)</b>	<b>(18)</b>	<b>(3,363)</b>	<b>(944)</b>	<b>(5,816)</b>
<b>Carrying amount at 31 December</b>	<b>16,237</b>	<b>36</b>	<b>512</b>	<b>509</b>	<b>17,294</b>

**Impairment losses** on goodwill related to divestments and businesses classified as held for sale, see 3.7, Goodwill impairment, 3.1, Discontinued operations and 3.2, Assets and liabilities held for sale.

### 3.6 INTANGIBLE ASSETS (CONTINUED)

#### ACCOUNTING POLICY

**Goodwill** is initially recognised at cost and subsequently at cost less accumulated impairment losses. Goodwill is not amortised. Goodwill relates 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, 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.

Acquired **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 the reporting date and adjusted prospectively, if appropriate.

Impairment test of intangibles, see 3.8, Impairment tests.

### 3.7 GOODWILL IMPAIRMENT

DKK million	2019	2018
Impairment losses derived from divestment of businesses	304	829
<b>Goodwill impairment</b>	<b>304</b>	<b>829</b>

**Impairment losses derived from divestment of businesses** mainly related to the divestment of the Hygiene & Prevention business in France (DKK 297 million). In 2018, the loss mainly related to the specialised cleaning business in the Netherlands of DKK 596 million, the Fruit business in Denmark and the Uniguard security business in the USA. Furthermore, remeasurement of Hygiene & Prevention in France resulted in a loss of DKK 156 million.

### 3.8 IMPAIRMENT TESTS

#### CASH-GENERATING UNITS (CGUs)

Impairment tests are generally carried out per country as this represents the lowest level of 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 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.

#### MEASURING RECOVERABLE AMOUNTS

The recoverable amount of each CGU is determined on the basis of its value-in-use, which 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 for the individual CGUs are based on financial budgets approved by management covering the following financial year. Assumptions applied in the short to medium term (forecasting period of five years) generally reflect management's expectations considering all relevant factors, including the Group's strategic initiatives, local initiatives, past experience and external sources of information, where possible and relevant. **Terminal growth** rates do not exceed the expected long-term average growth rate including inflation for the country in which the CGU operates.

In addition to the above more general principles, **revenue growth** in the forecasting period is estimated based on the CGU's expected market development taking into consideration the maturity of the market and the macroeconomic environment in general. Impact from local and Group initiatives are also considered. This includes the programme of accelerated investment that we are undertaking until 2021 to maximise growth from key accounts, among others by filling service capability white spots in key geographies (select CGUs), primarily within technical and food services as well as workplace management and design, but also by accelerating the deployment of concepts, innovation and excellence across our major key account customers. The estimated impact of the latter is also taken into consideration when estimating the development in **operating margin** in the forecasting period. Furthermore, local efficiency improvements as well as the Group efficiency programme launched in November 2019, which targets cost savings and postponement of various projects, are taken into consideration.

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. Furthermore, following the implementation of IFRS 16, an adjustment has been made to reflect that right-of-use assets have been included in other non-current assets to be tested.

**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.

A **target ratio** of 25/75 (2018: 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% (2018: 6.5%).

#### RESULT OF THE IMPAIRMENT TESTS

In 2019, the impairment tests did not result in recognition of impairment losses.

### 3.8 IMPAIRMENT TESTS (CONTINUED)

#### CARRYING AMOUNTS AND KEY ASSUMPTIONS

The carrying amount of intangibles, i.e. goodwill and customer contracts, and the key assumptions<sup>1)</sup> 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 CGUs considered to be at high risk of impairment or having incurred recent impairment losses.

DKK million	Carrying amount			Forecasting period		Terminal period		Applied discount rate	
	Goodwill	Customer contracts	Total intangibles	Growth (avg.)	Margin (avg.) <sup>2)</sup>	Growth	Margin <sup>2)</sup>	Net of tax	Pre-tax
<b>2019</b>									
USA & Canada <sup>3)</sup>	2,283	196	2,479	4.0%	5.9%	3.0%	5.9%	9.3%	13.9%
France	1,902	-	1,902	1.2%	2.3%	2.5%	6.5%	7.4%	10.3%
UK & Ireland	1,793	167	1,960	1.5%	5.7%	2.5%	5.7%	8.0%	9.3%
Finland	1,660	-	1,660	2.5%	7.1%	2.0%	7.1%	7.1%	8.5%
Australia & New Zealand	1,298	27	1,325	3.5%	5.2%	3.0%	5.2%	8.3%	11.0%
Switzerland	1,214	1	1,215	0.9%	6.8%	2.0%	6.8%	5.7%	6.9%
Spain & Portugal	1,065	17	1,082	1.9%	5.9%	2.5%	5.9%	7.5%	9.4%
Netherlands	401	-	401	4.3%	2.3%	2.0%	5.0%	7.5%	9.1%
Other	4,897	9	4,906	-	-	-	-	-	-
<b>Total</b>	<b>16,513</b>	<b>417</b>	<b>16,930</b>						
<b>2018</b>									
USA & Canada <sup>3)</sup>	2,230	207	2,437	4.1%	5.4%	3.0%	5.5%	10.3%	13.1%
France	1,901	-	1,901	2.8%	6.2%	2.5%	6.5%	8.5%	13.2%
UK & Ireland	1,694	184	1,878	3.3%	7.0%	2.5%	7.0%	8.0%	9.4%
Finland	1,640	-	1,640	2.4%	7.8%	2.0%	7.8%	7.9%	9.6%
Australia & New Zealand	1,279	44	1,323	3.1%	4.6%	3.0%	4.6%	9.4%	12.8%
Switzerland	1,175	3	1,178	1.0%	7.2%	2.0%	7.2%	6.4%	7.8%
Spain & Portugal	1,065	27	1,092	2.1%	6.2%	2.5%	6.2%	8.7%	11.1%
Netherlands	401	-	401	4.2%	4.2%	2.0%	5.0%	8.2%	10.6%
Other	4,852	47	4,899	-	-	-	-	-	-
<b>Total</b>	<b>16,237</b>	<b>512</b>	<b>16,749</b>						

<sup>1)</sup> 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.

<sup>2)</sup> Excluding allocated corporate costs and Royalty.

<sup>3)</sup> Excluding brands of DKK 25 million (2018: DKK 36 million).

### 3.8 IMPAIRMENT TESTS (CONTINUED)

#### 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 <sup>1)</sup>		Growth		Margin <sup>1)</sup>			
	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
2019										
UK & Ireland	1.5%	>1.5%	5.7%	>3.0%	2.5%	>2.5%	5.7%	>3.0%	8.0%	11.0%
USA & Canada	4.0%	>4.0%	5.9%	>3.0%	3.0%	>3.0%	5.9%	>3.0%	9.3%	5.5%
Finland	2.5%	>2.5%	7.1%	>3.0%	2.0%	>2.0%	7.1%	>3.0%	7.1%	6.8%
France	1.2%	>1.2%	2.3%	>3.0%	2.5%	0.9 %	6.5%	1.1%	7.4%	0.8%
Switzerland	0.9%	>0.9%	6.8%	>3.0%	2.0%	>2.0%	6.8%	>3.0%	5.7%	15.3%
Australia & New Zealand	3.5%	>3.5%	5.2%	>3.0%	3.0%	>3.0%	5.2%	>3.0%	8.3%	8.4%
Spain & Portugal	1.9%	>1.9%	5.9%	>3.0%	2.5%	>2.5%	5.9%	>3.0%	7.5%	6.2%
Netherlands	4.3%	>4.3%	2.3%	>3.0%	2.0%	>2.0%	5.0%	1.8%	7.5%	2.4%
2018										
UK & Ireland	3.3%	>3.3%	7.0%	>3.0%	2.5%	>2.5%	7.0%	>3.0%	8.0%	>3.0%
USA & Canada	4.1%	>4.1%	5.4%	>3.0%	3.0%	>3.0%	5.5%	>3.0%	10.3%	>3.0%
Finland	2.4%	>2.4%	7.8%	>3.0%	2.0%	>2.0%	7.8%	>3.0%	7.9%	>3.0%
France	2.8%	>2.8%	6.2%	>3.0%	2.5%	>2.5%	6.5%	>2.7%	8.5%	>3.0%
Switzerland	1.0%	>1.0%	7.2%	>3.0%	2.0%	>2.0%	7.2%	>3.0%	6.4%	>3.0%
Australia & New Zealand	3.1%	>3.1%	4.6%	>3.0%	3.0%	>3.0%	4.6%	1.8%	9.4%	>3.0%
Spain & Portugal	2.1%	>2.1%	6.2%	>3.0%	2.5%	>2.5%	6.2%	>3.0%	8.7%	>3.0%
Netherlands	4.2%	>4.2%	4.2%	>3.0%	2.0%	>2.0%	5.0%	>3.0%	8.2%	>3.0%

<sup>1)</sup> Excluding allocated corporate costs and Royalty.

#### 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.

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 "Measuring recoverable amounts". In recent years, volatility in risk free interest rates has increased, which generally has increased the estimation uncertainty.

#### ACCOUNTING POLICY

Intangible assets with an indefinite useful life, i.e. goodwill, is subject to impairment testing 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, i.e. 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 4

### 4.1 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 4.6, 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 2019, ISS Global A/S's share capital comprised 180,100 shares with a nominal value of DKK 1,000 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.

In 2018, the share capital was increased by nominally DKK 100,000 by conversion of an intercompany loan of DKK 3,072,880,000 to the sole shareholder ISS World Services A/S, corresponding to a share premium of DKK 3,072,780,000.

#### TRANSLATION RESERVE

DKK million	Net investment hedges	Subsidiaries and non-controlling interests	Total
Translation reserve at 1 January	-	(571)	(571)
Foreign exchange adjustments of subsidiaries (ISS Global's share)	-	293	293
Recycling of accumulated foreign exchange adjustments on country exits	-	(115)	(115)
Fair value adjustments of net investment hedges	(143)	-	(143)
<b>Translation reserve at 31 December</b>	<b>(143)</b>	<b>(393)</b>	<b>(536)</b>

#### DIVIDEND

In 2019, dividends of DKK 1,500 million (2018: DKK 1,500 million) to ISS World Services A/S (ultimately ISS A/S) were approved at an extraordinary general meeting and paid out in December 2019.

#### 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 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 and fair value adjustments of net investment hedges.

On full realisation of a foreign entity where control is lost the accumulated 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 the decision to pay the dividend is made.



## 4.2 LOANS AND BORROWINGS

DKK million	2019	2018
Issued bonds	14,123	17,121
Lease liabilities <sup>1)</sup>	2,982	232
Debt to companies within the ISS Group	2,686	2,047
Bank loans	247	179
Derivatives	1	-
<b>Total</b>	<b>20,039</b>	<b>19,579</b>
Non-current liabilities	16,198	17,289
Current liabilities	3,841	2,290
<b>Loans and borrowings</b>	<b>20,039</b>	<b>19,579</b>
Cash and cash equivalents and other financial items <sup>2)</sup>	(2,765)	(6,878)
<b>Net debt</b>	<b>17,274</b>	<b>12,701</b>

<sup>1)</sup> Right-of-use assets are presented in 2.1, Property, plant and equipment and leases.

<sup>2)</sup> Includes securities of DKK 55 million (2018: DKK 39 million) as well as positive value of currency swaps and net investment hedges of DKK 12 million and DKK 29 million (2018: DKK 13 million/DKK 0 million), respectively.

### REFINANCING

In 2019, ISS Global A/S successfully issued EMTN bonds for a principal amount of EUR 500 million maturing in 2026. The notes were issued under ISS Global A/S's EUR 3 billion EMTN programme. The net proceeds were together with surplus cash used for the early repayment in October 2019 of EUR 700 million EMTNs maturing in January 2020. In addition, ISS Global A/S in December 2019 successfully completed a cash tender for EUR 200 million EMTNs maturing in January 2021 leaving EUR 300 million EMTNs maturing in January 2021 outstanding.

### FINANCING FEES

In 2019, financing fees amounting to DKK 41 million (2018: DKK 4 million) have been recognised in loans and borrowings while financing fees of DKK 27 million (2018: DKK 22 million) have been amortised and recognised in financial expenses. Accumulated financing fees recognised in loans and borrowings on 31 December 2019 amounted to DKK 93 million (2018: DKK 79 million).

### FAIR VALUE

The fair value of loans and borrowings was DKK 20,460 million (DKK 17,478 million excluding lease liabilities) (2018: DKK 19,819 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 4.5, Interest rate risk.

## 4.2 LOANS AND BORROWINGS (CONTINUED)

### CHANGES IN LOANS AND BORROWINGS

DKK million

	2019	2018
Loans and borrowings at 1 January	19,579	24,128
Adoption of IFRS 16	3,436	-
Foreign exchange adjustments	79	19
Proceeds from bonds	3,695	-
Repayment of bonds	(6,717)	-
Repayment of lease liabilities	(1,066)	(55)
Other financial payments, net <sup>1)</sup>	(308)	(234)
Additions to lease liabilities (non-cash)	618	136
Debt conversion (non-cash)	-	(4,800)
Payments (to)/from companies within the ISS Group, net	633	229
Acquisitions and divestments, net	(228)	1
Reclassification to Liabilities held for sale	(103)	-
Fair value adjustments of net investment hedges	143	-
Realised foreign exchange gains/losses, net	149	18
Other non-cash movements	129	137
<b>Loans and borrowings at 31 December</b>	<b>20,039</b>	<b>19,579</b>

<sup>1)</sup> Mainly drawings on Revolving Credit Facility and local bank loans and overdrafts.

### CHANGES IN LEASE LIABILITIES

DKK million

	2019
Lease liability at 1 January <sup>1)</sup>	3,668
Foreign exchange adjustments	68
Additions	618
Interest expenses	94
Payments	(1,160)
Divestments	(203)
Reclassifications to Liabilities held for sale	(103)
<b>Lease liabilities at 31 December</b>	<b>2,982</b>

<sup>1)</sup> Hereof DKK 232 million related to finance leases already recognised in accordance with IAS 17.

Maturity analysis of lease liabilities is disclosed in 4.6, Liquidity risk.

### ACCOUNTING POLICY

**Issued bonds and bank loans** are recognised initially at fair value net of directly attributable transaction costs and subsequently 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.

**Amortisation of financing fees** At the date of borrowing financing fees are recognised as part of loans and borrowings. Subsequently, financing fees are amortised over the term of the loan and recognised in financial expenses.

**Lease liabilities** At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any incentive payments, variable lease payments that depend on an index or rate, e.g. when a minimum indexation is applied, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The present value is calculated using the Group's incremental borrowing rate if the interest rate implicit in the lease is not readily determinable.

After initial recognition, the lease liability is measured at amortised cost using the effective interest method. The lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. The lease liability is remeasured if there is a modification, a change in lease term or a change in the assessment to purchase the underlying asset. In addition, the lease liability is remeasured if there is a change in future lease payments arising from a change in an index or rate or if there is a change in the Group's estimate of the amount expected to be payable under a residual guarantee.

### 4.3 FINANCIAL INCOME AND EXPENSES

DKK million	2019	2018
Interest income on cash and cash equivalents	39	37
Interest income from companies within the ISS Group	10	27
<b>Financial income</b>	<b>49</b>	<b>64</b>
Interest expenses on loans and borrowings	(407)	(349)
Interest expenses on lease liabilities	(94)	(15)
Forward premiums, currency swaps	(93)	(99)
Amortisation of financing fees (non-cash)	(27)	(22)
Net interest on defined benefit obligations	(25)	(21)
Interest on factoring <sup>1)</sup>	(20)	(20)
Foreign exchange losses	(3)	(31)
Interest expense to companies within the ISS Group	(5)	(28)
Other bank fees	(71)	(62)
<b>Financial expenses</b>	<b>(745)</b>	<b>(647)</b>

<sup>1)</sup> The Group uses non-recourse factoring with certain large blue-chip customers and participates in certain customers' supply chain finance arrangements. ISS does not use reverse factoring or supply chain financing of own payables.

**Interest expenses on loans and borrowings** was negatively impacted by the early refinancing of the EUR 700 million EMTNs maturing January 2020, which resulted in higher gross debt from June, when the new 7-year EMTNs were issued, until the 2020 EMTNs were repaid in October. Furthermore, interest expenses increased due to higher average net debt during 2019 as well as the higher leverage in the second half of 2019, which resulted in a higher credit margin on drawings on the revolving credit facilities.

**Interest expenses on lease liabilities** increased due to the implementation of IFRS 16.

**Forward premiums on currency swaps** decreased slightly as a result of a lower amount of EUR/USD swaps during 2019.

**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.

### 4.4 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. 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. It is considered on an ongoing basis if the financial risk management approach appropriately addresses the risk 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 Group's objectives and policies for measuring and managing risk exposure are explained in:

- 4.5, Interest rate risk;
- 4.6, Liquidity risk; and
- 4.7, Currency risk.

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

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

At 31 December 2019, the exposure to credit risk related to cash and cash equivalents and other financial items was DKK 2,765 million (2018: DKK 6,878 million). It is the Group's policy 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.

The Group has not identified additional financial risk exposures in 2019 compared to 2018.

## 4.5 INTEREST RATE RISK

EXPOSURE	RISK MANAGEMENT POLICY	MITIGATION
<p>Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. Exposure relates to bank loans with floating interest rates.</p> <p><b>Low risk</b></p> <ul style="list-style-type: none"> <li>• 83% of the Group's loans and bonds carried fixed interest rates at 31 December 2019 (2018: 88%)</li> <li>• Duration of gross debt (fixed-rate period) of 5.5 years at 31 December 2019 (2018: 4.1 years)</li> <li>• Interest rate exposure primarily related to DKK denominated debt to companies within the ISS Group and EUR denominated bank loans</li> </ul>	<ul style="list-style-type: none"> <li>• At least 50% of the Group's bank loans and issued bonds must carry fixed interest rates directly or through derivatives</li> <li>• Duration of gross debt (fixed-rate period) shall be 2-6 years</li> <li>• Currently, the Group does not use interest rate swaps</li> </ul>	<ul style="list-style-type: none"> <li>• The balance between fixed and variable interest rates and gross debt duration (fixed-rate period) is measured on a monthly basis</li> </ul>

### EXPOSURE TOWARDS INTEREST RATES

DKK million				2019		2018
	Nominal interest rate	Currency	Maturity	Nominal value	Carrying amount	Carrying amount
<b>Issued bonds (fixed interest rate)</b>						
EMTNs (EUR 700 million)	1.125%	EUR	2020	-	-	5,220
EMTNs (EUR 500 million)	1.125%	EUR	2021	2,241	2,238	3,724
EMTNs (EUR 500 million)	2.125%	EUR	2024	3,735	3,721	3,717
EMTNs (EUR 500 million)	0.875%	EUR	2026	3,735	3,701	-
EMTNs (EUR 600 million)	1.500%	EUR	2027	4,481	4,463	4,460
				<b>14,192</b>	<b>14,123</b>	<b>17,121</b>
<b>Bank loans (floating interest rate)</b>						
Revolving Credit Facility (EUR 1,000 million) <sup>1)</sup>	Libor + 0.60%	Multi	2024	73	49	53
Bank loans and overdrafts	-	Multi	-	198	198	126
				<b>271</b>	<b>247</b>	<b>179</b>
<b>Intra-group (floating interest rate)</b>						
Debt to companies within the ISS Group <sup>2)</sup>	Cibor + 0.50%	DKK	2024	2,686	2,686	2,047
				<b>2,686</b>	<b>2,686</b>	<b>2,047</b>

<sup>1)</sup> The Revolving Credit Facility was extended in November 2019 to mature in November 2024. The current margin of 1.00% will decrease to 0.60% in February 2020 as a result of lower leverage in the ISS A/S Group. 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%.

<sup>2)</sup> The loans are committed until 2024, but classified as current as they are used in the ISS Global Group's normal operating cycle.

### INTEREST RATE SENSITIVITY

An increase in relevant interest rates of 1%-point would have decreased net profit by DKK 28 million (2018: decreased by DKK 21 million).

The estimate was based on the Group's floating rate loans and borrowings, 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 remain constant.

In addition, at 31 December 2019, the net forward position of intercompany loan hedges (excluding EUR/DKK hedges) was DKK 2.1 billion (2018: DKK 4.3 billion) of which USD represents DKK 1.8 billion (2018: DKK 2.4 billion). An increase of 1%-point in relevant interest rates versus EUR/DKK interest rates would have increased the annual cost (forward premium) by DKK 21 million (2018: increased DKK 43 million) and consequently decreased net profit and equity with the same amount.

## 4.6 LIQUIDITY RISK

EXPOSURE	RISK MANAGEMENT POLICY	MITIGATION
<p>The Group monitors its risk of insufficient liquidity centrally in Group Treasury. 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.</p> <p><b>Low risk</b></p> <ul style="list-style-type: none"> <li>• No short-term maturities</li> <li>• Diversified funding; bonds, bank loans and intercompany loans</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain an appropriate level of short- and long-term liquidity reserves (liquid funds and committed credit facilities)</li> <li>• Maintain a smooth maturity profile in terms of different maturities</li> <li>• Maintain access to diversified funding sources</li> </ul>	<ul style="list-style-type: none"> <li>• Raising capital is managed centrally in Group Treasury to ensure efficient liquidity management</li> <li>• Liquidity is transferred to/from ISS Global A/S, which operates as the Group's internal bank</li> <li>• For day-to-day liquidity management cash pools have been established in the majority of the local entities</li> </ul>

### LIQUIDITY RESERVES

The Group's liquidity reserves mainly consist of 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 2019, the Group's liquid reserves consisted of readily available liquid funds of DKK 2,637 million (2018: DKK 6,762 million) and unused revolving credit facilities of DKK 7,104 million (2018: DKK 7,056 million) where the majority is available for drawing until 3 November 2024.

In addition, as of 31 December 2019, ISS had DKK 1.0 billion of other credit facilities of which DKK 0.8 billion was unused. Such facilities comprise mainly other local credit facilities, which are not part of the senior unsecured facilities.

DKK 32 million (2018: DKK 64 million) of the total cash and cash equivalents at 31 December 2019 was placed on blocked or restricted bank accounts due to legal circumstances.

### CONTRACTUAL MATURITIES

The contractual maturities of financial liabilities, based on undiscounted contractual cash flows, are shown in the table. The undiscounted contractual cash flows include expected interest payments, estimated based on market expectations at 31 December. The risk implied from the values reflects the one-sided scenario of cash outflows only. Trade payables and other financial liabilities are mainly used to 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
<b>2019</b>								
Issued bonds and bank loans <sup>1)</sup>	14,371	15,621	484	2,421	179	182	3,908	8,447
Debt to companies within the ISS Group	2,686	2,693	2,693	-	-	-	-	-
Lease liabilities	2,982	3,133	914	720	539	347	218	395
Trade payables and other financial liabilities <sup>2)</sup>	6,702	6,739	6,594	34	111	-	-	-
<b>Total financial liabilities</b>	<b>26,741</b>	<b>28,186</b>	<b>10,685</b>	<b>3,175</b>	<b>829</b>	<b>529</b>	<b>4,126</b>	<b>8,842</b>
<b>2018</b>								
Issued bonds and bank loans <sup>1)</sup>	17,300	18,778	465	5,488	3,936	182	163	8,544
Debt to companies within the ISS Group	2,047	2,057	2,057	-	-	-	-	-
Finance lease liabilities	232	73	73	-	-	-	-	-
Trade payables and other financial liabilities <sup>2)</sup>	7,207	7,253	7,095	73	32	53	-	-
<b>Total financial liabilities</b>	<b>26,786</b>	<b>28,161</b>	<b>9,690</b>	<b>5,561</b>	<b>3,968</b>	<b>235</b>	<b>163</b>	<b>8,544</b>

<sup>1)</sup> Excluding debt to companies within the ISS Group.

<sup>2)</sup> Including payable royalties and management fees to ISS World Services A/S

## 4.7 CURRENCY RISK

EXPOSURE	RISK MANAGEMENT POLICY	MITIGATION
<p>Currency risk is the risk that arises from changes in exchange rates, and affects the Group's result, investments or value of financial instruments.</p> <p><b>Low risk</b></p> <p>The Group generally benefits from a natural hedge in having costs, investments and income in the same functional currency country by country. Currency risk therefore predominantly arises from funding and investments in subsidiaries</p> <ul style="list-style-type: none"> <li>• 98.5% of the Group's loans and borrowings (external) were denominated in EUR/DKK at 31 December 2019 (2018: 99.7%)</li> <li>• Including the impact of net investment hedges, 76.4% of the Group's external borrowings were denominated in EUR</li> <li>• 68.5% of the Group's EBITDA in GBP, CHF, USD and EUR was matched by loans and borrowings (external) or dedicated net investment hedges at 31 December 2019</li> </ul>	<ul style="list-style-type: none"> <li>• It is Group policy to pool funding activities centrally and fund investments in subsidiaries through a combination of intercompany loans and equity</li> <li>• Currency risk on intercompany loans is as a main policy hedged against DKK or EUR when exposure exceeds DKK 5 million. Some currencies cannot be hedged within a reasonable price range in which case correlation to a proxy currency is considered and, if deemed appropriate, proxy hedging is applied</li> <li>• Currency risk on net investments are as a main policy hedged against DKK or EUR when annual EBITDA of the relevant functional currency corresponds to 5% or more of Group EBITDA up to an amount of 3-5x EBITDA in the relevant functional currency and adjusted as appropriate to relevant market entry and exit risk</li> <li>• Exposure to EUR is monitored but not hedged due to the fixed rate exchange policy between DKK/EUR</li> <li>• Our currency hedging exposes us to interest spread risk, see sensitivity analysis in note 4.5, Interest rate risk</li> </ul>	<ul style="list-style-type: none"> <li>• Currency swaps are used to hedge the exposure to currency risk on loans and borrowings (external) and intercompany balances. As changes in the fair value of both the hedged item and the currency swap are recognised in the income statement in financial income and expenses, hedge accounting is not applied</li> <li>• 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</li> <li>• Currency swaps (net investment hedges) or debt is used to hedge the currency exposure to investments in subsidiaries. As hedge accounting is applied (other than for EUR) changes in fair value impact equity</li> </ul>

### LOANS AND BORROWINGS – FOREIGN CURRENCY SENSITIVITY

A change in relevant currencies, with all other variables held constant, would have impacted net profit with the amounts below. The analysis is based on the Group's internal monitoring of currency exposure on loans and borrowings, intercompany loans, cash and cash equivalents as well as accrued royalties (Group internal).

				Sensitivity	
	Currency exposure (nominal value)	Currency swaps (contractual value)	Total exposure, net	Increase in foreign exchange rates	Net profit
DKK million					
2019					
EUR/DKK	(13,799)	6,545	(7,254)	1%	(73)
USD/DKK	1,711	(1,839)	(128)	10%	(13)
Other/DKK	(306)	507	201	10%	20
Total	(12,394)	5,213	(7,181)		
2018					
EUR/DKK	(15,723)	8,304	(7,419)	1%	(74)
USD/DKK	2,201	(2,264)	(63)	10%	(6)
Other/DKK	1,373	(1,321)	52	10%	5
Total	(12,149)	4,719	(7,430)		

**NET INVESTMENT HEDGES – FOREIGN CURRENCY SENSITIVITY**

A 10%-change in currencies, with all other variables held constant, would have changed the fair value recognised in Other comprehensive income of GBP with DKK 15 million, of USD with DKK 15 million and of CHF with DKK 65 million.

DKK million	Net investment	Hedging of investment	Total exposure, net	Average price	Change in fair value recognised in Other comprehensive income	Fair value	Maturity
GBP	2,604	2,455	149	8.84	(136)	26	March 2020
USD	881	734	147	6.70	(3)	6	March 2020
CHF	1,333	687	646	6.85	(4)	(3)	March 2020
<b>Total</b>	<b>4,818</b>	<b>3,876</b>	<b>942</b>	<b>-</b>	<b>(143)</b>	<b>29</b>	

The effect of translation of net assets in foreign subsidiaries before the effect of net investment hedges increased equity by DKK 292 million (2018: a decrease of DKK 148 million).

**ACCOUNTING POLICY**

Derivative financial instruments are initially recognised at fair value at the trade date and subsequently remeasured at fair value.

The fair value of derivative financial instruments is calculated on the basis of current market data and in accordance with generally accepted valuation methods. Measurement is categorised as Level 2 in the fair value hierarchy as it is not based on observable market data.

For derivative financial instruments used as net investment hedges, changes in the effective portion of the fair value are recognised in other comprehensive income and presented in the translation reserve in equity until the hedged transaction is realised. Gains or losses relating to the ineffective portion are recognised in the income statement in financial income or financial expenses. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity is transferred to the income statement.

The fair value of derivative financial instruments is presented in Other receivables or Loans and borrowings.



## REMUNERATION

### SECTION 5

#### 5.1 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	2019			2018		
	EGM			EGM		
	Board	EGMB	Corporate Senior Officers	Board	EGMB	Corporate Senior Officers
Base salary and non-monetary benefits	8,751	17,543	36,879	8,818	16,821	33,614
Annual bonus (STIP)	-	2,997	10,898	-	11,906	20,660
Retention bonus	-	2,722	-	-	9,878	-
Share-based payments (LTIP)	-	4,038	4,786	-	3,482	4,141
<b>Total remuneration</b>	<b>8,751</b>	<b>27,300</b>	<b>52,563</b>	<b>8,818</b>	<b>42,087</b>	<b>58,415</b>

#### 5.2 SHARE-BASED PAYMENTS

ISS A/S has an equity-settled **long-term incentive programme (LTIP)**. ISS A/S recharges costs relating to the ISS Global Group. Members of the EGM (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. Participants are compensated for any dividend distributed between time of grant and time of vesting.

Subject to certain criteria, the PSUs will vest after three years. The vesting criteria are total shareholder return (TSR) and earnings per share (EPS), equally weighted. TSR peers are the Nasdaq Copenhagen OMX C25 and a peer group of comparable international service companies.

THRESHOLD	VESTING	TSR	EPS ANNUAL GROWTH <sup>1)</sup>		
			LTIP 2017	LTIP 2018 <sup>2)</sup>	LTIP 2019 <sup>2)</sup>
<b>Below threshold</b>	0%	Below median of peers	< 3%	< 3%	< 4%
<b>Threshold</b>	25%	At median of peers	3%	3%	4%
<b>Maximum</b>	100%	At upper quartile of peers or better	9%	9%	12%

##### TSR peers

##### International service companies

ABM Industries, Adecco, Aramark, Bunzl, Compass Group, Capita, Elis (2018 and 2019 only), G4S, Mitie Group, Randstad, Rentokil Initial, Securitas, Serco, Sodexo. Interserve omitted due to bankruptcy in March 2019.

##### OMX C25

A.P. Møller – Mærsk A, A.P. Møller – Mærsk B, Ambu (2019 only), Bavarian Nordic (2018 only), Carlsberg, Chr. Hansen Holding, Coloplast, Danske Bank, Demant, DSV, FLSmidth & Co (2018 and 2019 only), Genmab, GN Store Nord, Jyske Bank, Lundbeck, NKT (2018 only), Nordea Bank (2018 only), Novo Nordisk, Novozymes, Pandora, Rockwool International (2019 only), Royal Unibrew (2019 only), SinCorp (2019 only), Sydbank (2019 only), Tryg (2018 and 2019 only), Vestas Wind Systems, Ørsted.

<sup>1)</sup> Adjusted EPS excluding Other income and expenses, net. EPS growth is measured as compound annual growth rate (CAGR).

<sup>2)</sup> Adjusted for discontinued operations.

## 5.2 SHARE-BASED PAYMENTS (CONTINUED)

In January 2019, the Group introduced an **accelerated growth award (AGA)** for selected key leaders, to incentivise the accelerated strategy execution following the Strategy Update in December 2018. PSUs granted under the programme in March 2019 will vest in March 2020 subject to achievement of performance criteria, i.e. operating margin, organic growth and free cash flow conversion on continuing operations in 2019. As the performance criteria have not been achieved, none of the PSUs granted under the programme will vest and the programme will lapse.

### FAIR VALUE AND IMPACT IN THE INCOME STATEMENT

DKK million (unless otherwise stated)	LTIP 2016	LTIP 2017	LTIP 2018	LTIP 2019	AGA
Total PSUs granted, number	822,876	753,538	869,112	928,367	327,893
Participants, number	141	155	152	142	103
Fair value of PSUs expected to vest at grant date	103	102	100	101	59
Fair value of PSUs expected to vest at 31 December 2019	-	31	29	87	-
Recognised in the income statement in 2019 <sup>1)</sup>	2	11	(6)	24	-
Not yet recognised (PSUs expected to vest)	-	2	11	63	-

<sup>1)</sup> Hereof DKK 4 million were expensed in ISS A/S and DKK 11 million were expensed in ISS World Services A/S.

### APPLIED ASSUMPTIONS AT THE TIME OF GRANT

	LTIP 2017	LTIP 2018	LTIP 2019	AGA
Share price, DKK	270	228	207	188
Expected volatility <sup>1)</sup>	27.9%	29.0%	26.6%	-
Expected life of grant	3 years	3 years	3 years	1 year
Risk-free interest rate <sup>1)</sup>	(0.2)%-2.4%	0.5%-2.4%	(0.3)%-2.7%	-

<sup>1)</sup> Based on observable market data for peer groups.

### LTIP 2016 - VESTED

In March 2019, the LTIP 2016 programme vested and the participants received shares in ISS A/S at no cost. Based on the annual EPS and TSR performances for 2016, 2017 and 2018, 6% of the granted PSUs, equal to 38,493 PSUs, vested. After this vesting, no further PSUs are outstanding under the LTIP 2016 and the programme has lapsed.

Number of PSUs	EGM			Total
	EGMB	Corporate Senior Officers	Other senior officers	
Outstanding at 1 January 2018	55,611	119,986	466,768	642,365
Granted	1,946	3,842	15,985	21,773
Transferred	-	(10,117)	10,117	-
Cancelled	-	(11,246)	(35,525)	(46,771)
<b>Outstanding at 31 December 2018</b>	<b>57,557</b>	<b>102,465</b>	<b>457,345</b>	<b>617,367</b>
Vested	(3,596)	(6,403)	(28,494)	(38,493)
Forfeited	(53,961)	(96,062)	(428,210)	(578,233)
Cancelled	-	-	(641)	(641)
<b>Outstanding at 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 5.2 SHARE-BASED PAYMENTS (CONTINUED)

### LTIP - OUTSTANDING PSUs

Number of PSUs LTIP 2017	EGM			Total
	EGMB	Corporate Senior Officers	Other senior officers	
Outstanding at 1 January 2018	58,182	88,241	463,619	610,042
Granted	2,066	2,882	16,159	21,107
Transferred	-	(7,006)	7,006	-
Cancelled	-	(9,034)	(42,210)	(51,244)
<b>Outstanding at 31 December 2018</b>	<b>60,248</b>	<b>75,083</b>	<b>444,574</b>	<b>579,905</b>
Granted	2,182	2,715	15,653	20,550
Cancelled	-	-	(21,930)	(21,930)
<b>Outstanding at 31 December 2019 <sup>1)</sup></b>	<b>62,430</b>	<b>77,798</b>	<b>438,297</b>	<b>578,525</b>

<sup>1)</sup> In March 2020, the PSUs granted under LTIP 2017 will vest with 0% based on the annual EPS and TSR performances for 2017, 2018 and 2019.

### LTIP 2018

Granted	85,410	94,892	664,552	844,854
Cancelled	-	(10,534)	(151,656)	(162,190)
<b>Outstanding at 31 December 2018</b>	<b>85,410</b>	<b>84,358</b>	<b>512,896</b>	<b>682,664</b>
Granted	3,093	3,052	18,075	24,220
Cancelled	-	-	(41,590)	(41,590)
<b>Outstanding at 31 December 2019</b>	<b>88,503</b>	<b>87,410</b>	<b>489,381</b>	<b>665,294</b>

### LTIP 2019

Granted	109,369	115,075	703,923	928,367
Cancelled	-	-	(163,749)	(163,749)
<b>Outstanding at 31 December 2019</b>	<b>109,369</b>	<b>115,075</b>	<b>540,174</b>	<b>764,618</b>

### Accelerated Growth Award (AGA)

Granted	41,925	57,531	228,437	327,893
Cancelled	-	-	(5,021)	(5,021)
<b>Outstanding at 31 December 2019 <sup>2)</sup></b>	<b>41,925</b>	<b>57,531</b>	<b>223,416</b>	<b>322,872</b>

<sup>2)</sup> In March 2020, the PSUs granted under AGA will vest with 0% based on operating margin, organic growth and free cash flow conversion on continuing operations in 2019.

### 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 increase in debt to ISS A/S.

The fair value of granted PSUs under the long-term incentive programme 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.

## 5.3 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. The Group has no further payment obligations once the contributions have been paid. In 2019, contributions amounted to DKK 1,511 million (2018: DKK 1,408 million), corresponding to 92% of the Group's pension costs (2018: 91%).

### 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 85% (2018: 87%) of the Group's obligation (gross) and 96% (2018: 96%) of its plan assets.

The plans are primarily based on years of service, and benefits are generally determined on the basis of salary and rank. 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, France and Hong Kong, the obligation is unfunded. For these unfunded plans the retirement benefit obligations amounted to DKK 892 million or 11% of the present value of the gross obligation (2018: DKK 696 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 benefits 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.

### 5.3 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 at 31 December 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.

	2019				2018			
	CHF	GBP	EUR	Other currencies	CHF	GBP	EUR	Other currencies
Discount rates	0.3%	2.0%	0.5-1.6%	1.0-16.8%	0.9%	3.0%	1.4-1.9%	1.0-16.8%
Salary increase	1.0%	0.0-1.63%	1.5-2.3%	0.0-8.6%	1.0%	1.0-2.2%	0.0-3.0%	0.0-8.6%
Pension increase	0.0%	1.90-3.00%	0.0-1.4%	0.0-2.0%	0.0%	3.1%	0.0-2.0%	0.0-2.0%

#### 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	2019		2018	
	+0.5%	-0.5%	+0.5%	-0.5%
Discount rate	(525)	568	(476)	535
Price inflation	116	(101)	138	(116)
Salary increase	75	(74)	78	(71)
Pension increase	174	(93)	357	(84)
	+1 year	-1 year	+1 year	-1 year
Life expectancy	172	(201)	165	(158)

The estimated weighted average duration of the defined benefit obligation was 13 years (2018: 13 years) and is split into:

Years	2019	2018
Active employees	12	13
Retired employees	13	13
Deferred vested <sup>1)</sup>	21	22
Total employees <sup>1)</sup>	13	13

<sup>1)</sup> 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.

### 5.3 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

	2019			2018		
DKK million	Present value of obligation	Fair value of plan assets	Obligation, net	Present value of obligation	Fair value of plan assets	Obligation, net
<b>Carrying amount at 1 January</b>	<b>7,528</b>	<b>6,594</b>	<b>934</b>	<b>7,567</b>	<b>6,506</b>	<b>1,061</b>
Current service costs	182	-	182	173	-	173
Interest on obligation/plan assets	100	75	25	94	73	21
Past service costs	(21)	-	(21)	(71)	-	(71)
<b>Recognised in the income statement <sup>1)</sup></b>	<b>261</b>	<b>75</b>	<b>186</b>	<b>196</b>	<b>73</b>	<b>123</b>
Actuarial (gain)/loss, demographic assumptions	(123)	-	(123)	(93)	-	(93)
Actuarial (gain)/loss, financial assumptions	644	-	644	(250)	-	(250)
Actuarial (gain)/loss, experience adjustments	71	-	71	100	-	100
Return on plan assets excl. interest income	-	676	(676)	-	(322)	322
Impact from asset ceiling	-	(49)	49	-	(8)	8
Reclassifications	-	-	-	(3)	(3)	-
<b>Recognised in other comprehensive income <sup>2)</sup></b>	<b>592</b>	<b>627</b>	<b>(35)</b>	<b>(246)</b>	<b>(333)</b>	<b>87</b>
Foreign exchange adjustments	255	244	11	211	220	(9)
Reclassifications	5	-	5	21	-	21
Acquisitions and divestments, net	(1)	(0)	(1)	(9)	(2)	(7)
Additions from new contracts, net	131	7	124	-	-	-
Employee contributions	142	142	-	134	134	-
Employer contributions	-	188	(188)	-	198	(198)
Benefits paid	(479)	(384)	(95)	(257)	(173)	(84)
Impact from asset ceiling	-	49	(49)	-	8	(8)
Reclassification to Liabilities held for sale	(40)	-	(40)	(89)	(37)	(52)
<b>Other changes</b>	<b>13</b>	<b>246</b>	<b>(233)</b>	<b>11</b>	<b>348</b>	<b>(337)</b>
<b>Carrying amount at 31 December</b>	<b>8,394</b>	<b>7,542</b>	<b>852</b>	<b>7,528</b>	<b>6,594</b>	<b>934</b>
Other long-term employee benefits			255			140
Accumulated impact from asset ceiling			142			87
<b>Pensions and similar obligations at 31 December</b>			<b>1,249</b>			<b>1,161</b>

<sup>1)</sup> Of which DKK 43 million was recognised in Net profit/(loss) from discontinued operations (2018: DKK 12 million).

<sup>2)</sup> Of which DKK 1 million related to discontinued operations (2018: DKK 4 million).

**Past service costs** In 2019 and 2018, the negative past service costs mainly related to a decrease of benefits in Switzerland due to a plan amendment. In 2019, this was partly offset by a change in assessment of the number of employees being covered by a pension plan in Thailand.

**Contribution to defined benefit plans** The Group expects to contribute DKK 243 million in 2020 (2019: DKK 225 million).

#### MAJOR CATEGORIES OF PLAN ASSETS

	2019	2018
Listed shares	36%	31%
Corporate bonds	24%	27%
Property	14%	13%
Cash and cash equivalents	4%	5%
Government bonds	3%	4%
Other	19%	20%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## OTHER REQUIRED DISCLOSURES

### SECTION 6

#### 6.1 OTHER SEGMENT INFORMATION

DKK million	Continental Europe	Northern Europe	Asia & Pacific	Americas	Other countries	Total segments	Unallocated <sup>1)</sup>	Elimination <sup>2)</sup>	Total Group
<b>2019</b>									
Operating profit	627	629	490	318	38	<b>2,102</b>	(25)	-	<b>2,077</b>
Total assets	18,178	15,596	7,787	4,780	2,389	<b>48,730</b>	13,534	(19,319)	<b>42,945</b>
Hereof assets held for sale	-	78	53	-	1,642	<b>1,773</b>	-	-	<b>1,773</b>
Additions to non-current assets <sup>3)</sup>	866	500	164	102	93	<b>1,725</b>	-	-	<b>1,725</b>
Total liabilities	10,455	10,731	3,612	3,724	1,572	<b>30,094</b>	29,448	(19,308)	<b>40,234</b>
Hereof liabilities held for sale	-	3	14	-	888	<b>905</b>	-	-	<b>905</b>
<b>2018</b>									
Operating profit	348	1,055	591	82	(1)	<b>2,075</b>	(77)	-	<b>1,998</b>
Total assets	16,333	14,276	7,214	4,503	3,178	<b>45,504</b>	15,924	(18,709)	<b>42,719</b>
Hereof assets held for sale	1,083	-	50	-	2,136	<b>3,269</b>	-	-	<b>3,269</b>
Additions to non-current assets <sup>3)</sup>	469	283	140	60	83	<b>1,035</b>	-	-	<b>1,035</b>
Total liabilities	8,794	8,463	3,204	3,597	2,510	<b>26,568</b>	31,099	(18,351)	<b>39,316</b>
Hereof liabilities held for sale	275	-	12	-	1,342	<b>1,629</b>	-	-	<b>1,629</b>

<sup>1)</sup> 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.

<sup>2)</sup> Eliminations relate to intra-group balances.

<sup>3)</sup> Comprise additions to Intangible assets and Property, plant and equipment, including from Acquisitions. In 2019, additions to right-of-use assets are also included.

#### NON-CURRENT ASSETS<sup>1)</sup> BY COUNTRY – MORE THAN 5% OF GROUP REVENUE

DKK million	2019	2018
USA & Canada	2,752	2,605
UK & Ireland	2,439	2,097
France	2,385	2,157
Switzerland	1,952	1,423
Australia & New Zealand	1,540	1,453
Spain & Portugal	1,337	1,257
Germany	1,162	562
Denmark (ISS Global A/S's country of domicile)	1,013	831
Norway	735	645
Other countries <sup>2)</sup>	6,961	6,105
<b>Total</b>	<b>22,276</b>	<b>19,135</b>

<sup>1)</sup> Excluding deferred tax assets.

<sup>2)</sup> Including unallocated items and eliminations.

#### ACCOUNTING POLICY

The accounting policies of the reportable segments are described in 1.1, Segment information.



## 6.2 CONTINGENT LIABILITIES

### GUARANTEE COMMITMENTS

Indemnity and guarantee commitments (mainly towards public authorities and insurance companies) at 31 December 2019 amounted to DKK 465 million (2018: DKK 413 million).

### PERFORMANCE GUARANTEES

The Group has issued performance guarantee bonds for service contracts amounting to DKK 3,372 million (2018: DKK 3,207 million) of which DKK 1,463 million (2018: DKK 1,331 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 2019 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 2019.

### RESTRUCTURING PROJECTS

Restructuring projects are being undertaken on an ongoing basis across different geographies and service areas, currently mainly in France. 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 2019.

## 6.3 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 Directors of ISS A/S and the Executive Group Management of ISS A/S are considered the Group's key management personnel as defined in 5.1, Remuneration to the Board of Directors and the Executive Group Management.

Apart from remuneration, including long-term incentive programmes and the accelerated growth award programme, there were no significant transactions with members of the Board and the EGM in 2019.

### OTHER RELATED PARTY TRANSACTIONS

In 2019, 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 1,405 million (2018: DKK 1,226 million) of which DKK 120 million (2018: DKK 117 million) related to discontinued operations.
- the Group received/paid interest from/to companies within the ISS Group, see 4.3, Financial income and expenses.
- the Group's short-term debt to ISS A/S amounted to DKK 2,044 million (2018: DKK 1,675 million) at 31 December 2019.
- the Group's short-term debt to ISS World Services A/S amounted to DKK 651 million (2018: DKK 358 million) at 31 December 2019.
- the Group paid dividends to ISS World Services A/S of DKK 1,500 million (2018: DKK 1,500 million).

### DIRECTORSHIPS AND EXTERNAL EXECUTIVE POSITIONS OF MANAGEMENT AT 31 DECEMBER 2019

Board of directors	Board Member
Jeff Gravenhorst	Chairman of the board of directors of Rambøll Gruppen A/S and chairman of the Confederation of Danish Industry's (DI) Permanent Committee on Business Policies.
Pierre-François Riolacci	Member of the board of directors of KLM (Koninklijke Luchtvaart Maatschappij N.V.).
Bjørn Raasteen	Member of the board of directors of certain ISS Group companies.
Managing Director	Board Member
Kristoffer Lykke-Olesen	Member of the board of directors of certain ISS Group companies.

Members of the board of directors and the Managing Director have no other executive positions.

## 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.

## 6.5 AVERAGE NUMBER OF EMPLOYEES

In 2019, average number of employees was 483,296 (2018: 485,682).

The average number of employees includes both the continuing and discontinued operations. The number of employees will gradually decline as a result of the ongoing divestment programme as we are divesting countries and business units with a disproportionate number of employees. Once the divestment programme completes, the number of employees is expected to be around 400,000.

## 6.6 FEES TO AUDITORS

DKK million	2019	2018
Statutory audit	29	26
Other assurance services	0	2
Tax and VAT advisory services	7	5
Other services	9	2
<b>Total</b>	<b>45</b>	<b>35</b>

**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.

## 6.7 SUBSEQUENT EVENTS

### IT SECURITY INCIDENT

As announced on 19 February 2020, ISS was the target of a malware attack on 17 February 2020, and on 20 March 2020, we announced an update on the incident.

The nature of our business is to deliver services on customer sites, mainly through our people, and as such we have been able to maintain uninterrupted service delivery to the vast majority of customers. There is still no indication that any customer data or sensitive personal employee data has been compromised as a result of the malware attack.

We have now regained control of most of our IT infrastructure and are systematically relaunching business-critical systems, albeit with somewhat reduced functionalities. This includes central finance systems supporting payroll and invoicing. We expect recovery of all business-critical systems during Q2 2020. The ongoing process for restoring or rebuilding systems and IT assets in full is anticipated to be completed by the end of 2020.

Incremental costs related to the following activities; remediation of the IT incident, workarounds to enable the continuous delivery of service to our customers, duplication of costs associated with operating our contracts, and service underperformance as a consequence of system down-time are estimated to be DKK 300-500 million in 2020. These costs will be reported within Other income and expenses, net.

As a consequence of damages to some of our IT assets, a write down and rebuild of part of the IT infrastructure is required. The assessment is ongoing, but the non-cash write-down, which will be reported within Other income and expenses, net, is expected to be up to DKK 350 million. The net incremental capital expenditure related to the rebuild is expected to be DKK 150-300 million in 2020.

In summary, the negative impact in 2020 on organic growth and operating profit before other items, as a result of the IT security incident, is estimated to be immaterial. The isolated combined net negative impact on free cash flow related to the IT security incident is estimated to be DKK 450-800 million with the majority of the impact in the second half of 2020 and some spill-over into 2021.

## 6.7 SUBSEQUENT EVENTS (CONTINUED)

### COVID-19

As announced on 20 March 2020, we are monitoring the rapidly developing repercussions related to COVID-19. Organic growth for January 2020 was strong at 7%, and above our expectations. Although we had limited access to our IT systems as a result of the malware attack, we saw no indication of any significant impact from COVID-19 during February, with effects largely confined to Asia. However, the rapid escalation of containment measures during March 2020 is having a negative revenue and operating profit impact. As a result of the current elevated global uncertainties on the back of COVID-19, our outlook for 2020 for the ISS A/S Group has been withdrawn pending further clarification of the market developments and the actual financial impact on our business.

While our operating margins are supported by contract clauses and a flexible cost structure, we are currently facing a reduced level of activity across many customer sites, currently most notably within Food Services (15% of Group revenue in 2019), as well as a reduction in the demand for projects and above base work. The situation varies greatly by geography, by customer segment and by service. We are in close dialogue with our customers and adapting accordingly within the framework of our contracts. Where demand for our services is impacted, we are utilising whatever government support is available.

Our priority is the safety and wellbeing of our people and our customers. In each country we have been implementing business continuity plans in line with local regulation and restrictions. We are adapting to a fast-moving environment.

Our liquidity remains solid and it is our intent to maintain a high level of liquidity, especially through uncertain times. As an additional precautionary measure, we have in 2020 secured extra liquidity lines, which are fully undrawn. Current liquidity is above DKK 8 billion. We have no financial covenants in our capital structure. We have no debt maturities in 2020 and the vast majority of our debt (around 90%) does not mature until 2024 onwards. In light of the extraordinary circumstances and as a precautionary measure, the Board of Directors of ISS A/S has withdrawn the proposal to pay an ordinary dividend of DKK 7.70 per share.

### DIVESTMENTS

Divestments completed in the period from 1 January to 28 February 2020 are described under Strategic divestments and acquisitions.

Other than as set out above or elsewhere in this Annual Report, we are not aware of events subsequent to 31 December 2019, which are expected to have a material impact on the Group's financial position.

## BASIS OF PREPARATION

### SECTION 7

#### 7.1 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 for the future.

The following items involve significant accounting estimates and judgements:

Item	Estimates	Judgements	Note
Revenue - gross or net presentation		x	1.2
Deferred tax assets	x		1.6
Right-of-use assets - lease term		x	2.1
Transition and mobilisation costs		x	2.3
Onerous contract provision	x	x	2.6
Discontinued operations	x	x	3.1
Assets and liabilities held for sale	x	x	3.2
Impairment tests	x		3.8
Pensions and similar obligations	x		5.3

#### 7.2 CHANGE IN ACCOUNTING POLICIES

Except for the changes below, the accounting policies have been applied consistently in respect of the financial year and comparative figures.

From 1 January 2019, the Group has adopted the below standards and interpretations. Except for IFRS 16, there was no significant impact on recognition and measurement:

- IFRS 16 "Leases";
- Amendments to IFRS 9 "Financial Instruments": Prepayment Features with Negative Compensation;
- Amendments to IAS 19 "Employee Benefits": Plan Amendment, Curtailment or Settlement;
- Amendments to IAS 28 "Investments in Associates and Joint Ventures": Long-term Interests in Associates and Joint Ventures;
- IFRIC 23 "Uncertainty over Income Tax"; and
- Parts of Annual Improvements to IFRS 2015-2017 Cycle.

##### IFRS 16 "LEASES"

The implementation of IFRS 16 had a material impact on the Group's consolidated financial statements as most of our lease contracts were previously classified as off-balance operating leases. On adoption, the Group recognised, with a few exceptions, leases as right-of-use assets and the related lease liabilities, i.e. similar to previous practice for financial leases.

In terms of reported profits, previously the operating lease cost was recognised in a single amount within Operating profit before other items. Following the adoption of IFRS 16, this is replaced by recognition of a depreciation charge in Operating profit before other items and a financial expense. The impact on net profit is neutral over time, but a timing effect does occur due to frontloading of interest expenses.

Regarding reported cash flows, previously operating lease payments were presented as part of Cash flow from operating activities. With the adoption of IFRS 16, lease payments are presented in two separate lines in the cash flow statement: 1) Interest paid within Cash flow from operating activities; and 2) Repayment of lease liabilities within Cash flow from financing activities, respectively. Total cash flow is unchanged.

The implementation impact on the relevant line item in the consolidated financial statements is illustrated below.

## 7.2 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### IMPACT ON THE CONSOLIDATED INCOME STATEMENT

DKK million	IFRS 16 2019	IAS 17 2019	Net impact 2019
Other operating expenses	(16,486)	(17,429)	943
Depreciation and amortisation	(1,562)	(659)	(903)
<b>Operating profit before other items</b>	<b>3,867</b>	<b>3,827</b>	<b>40</b>
Financial expenses	(745)	(666)	(79)
<b>Profit before tax (adjusted)</b>	<b>1,793</b>	<b>1,832</b>	<b>(39)</b>

### IMPACT ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

Operating profit before other items	3,867	3,827	40
Operating profit before other items (discontinued operations)	125	5	120
Depreciation and amortisation	1,562	659	903
Interests paid	(685)	(606)	(79)
<b>Cash flow from operating activities</b>	<b>1,275</b>	<b>291</b>	<b>984</b>
Repayment of lease liabilities	(1,066)	(82)	(984)
<b>Cash flow from financing activities</b>	<b>(1,066)</b>	<b>(82)</b>	<b>(984)</b>

### IMPACT ON THE CONSOLIDATED OPENING BALANCE

DKK million			
Right-of-use assets (included in Property, plant and equipment)	3,683	247	3,436
Lease liabilities (included in Loans and borrowings)	3,668	232	3,436

### APPLICATION AND PRACTICAL EXPEDIENTS

The Group has adopted IFRS 16 using the modified retrospective approach. Comparative figures have not been restated and continue to be reported in accordance with IAS 17 and IFRIC 4. Instead, the cumulative effect is recognised in the opening balance on 1 January 2019.

For leases previously classified as operating leases under IAS 17, lease liabilities have been measured at the present value of the remaining lease payments. Where the interest rate implicit in the lease was not readily determinable, a weighted average incremental borrowing rate was applied, which at 1 January 2019 were:

- Land and buildings: 2.6%
- Production equipment: 2.1%
- IT and hardware: 1.9%
- Vehicles and other: 2.9%

The right-of-use assets were recognised based on an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments previously recognised.

For leases classified as finance leases under IAS 17, the carrying amount of lease liabilities and right-of-use assets at 1 January 2019 equals the carrying amount of lease liabilities and lease assets at 31 December 2018.

In terms of practical expedients, when adopting IFRS 16 the Group has applied the following:

- Reliance on previous assessments of whether leases are onerous;
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to reassess whether a contract contains a lease at the date of initial application. For contracts entered into before the transition date 1 January 2019, the Group relied on its assessment made applying IAS 17 and IFRIC 4.

## 7.2 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### RECONCILIATION OF LEASE LIABILITY

Differences between the operating lease commitments at 31 December 2018 as disclosed in the Annual Report 2018 and the lease liabilities recognised in the opening balance at 1 January 2019 in accordance with IFRS 16 were as follows:

DKK million	2019
Operating lease commitments 31 December 2018	3,309
Discounted using the Group's incremental borrowing rate at the date of initial application	(208)
Finance lease liabilities recognised 31 December 2018	232
Short-term and low-value leases recognised as an expense on a straight-line basis	(347)
Adjustments	682
<b>Lease liabilities recognised 1 January 2019</b>	<b>3,668</b>

**Adjustments** primarily comprise the value of lease options which are reasonably certain to be exercised at the date of initial application. These options did not qualify as future minimum lease payments under non-cancellable operating leases in accordance with IAS 17.

### CHANGE IN CLASSIFICATION

The Group changed the classification of restructuring costs. From 1 January 2019, restructuring costs have been presented as part of Operating profit before other items in the relevant line items, primarily staff costs. Previously, restructuring costs were presented in Other income and expenses, net.

GREAT has since 2013 been the key driver behind restructuring costs. As the GREAT roll-out is coming to an end, restructuring costs are expected to stabilise going forward. Thus, it is management's assessment that this presentation most appropriately reflects the Group's performance. Comparative figures are restated accordingly.

The change in classification impacted the consolidated financial statements as follows:

### IMPACT ON THE CONSOLIDATED INCOME STATEMENT

DKK million	2019	2018
Staff costs	(149)	(428)
Other operating expenses	(112)	(77)
<b>Operating profit before other items</b>	<b>(261)</b>	<b>(505)</b>
Other income and expenses, net	261	505
<b>Operating profit</b>	<b>-</b>	<b>-</b>

### IMPACT ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

DKK million	2019	2018
Operating profit before other items	(261)	(505)
Operating profit before other items from discontinued operations	-	5
Other expenses paid	309	403
Changes in working capital	(48)	97
<b>Cash flow from operating activities</b>	<b>-</b>	<b>-</b>

### 7.3 GENERAL ACCOUNTING POLICIES

The consolidated financial statements of ISS Global A/S for the year ended 31 December 2019 comprise ISS Global A/S and its subsidiaries (collectively, the Group). Significant subsidiaries are listed in 7.5, Group companies.

The Annual Report for ISS Global A/S for 2019 was discussed and approved by the Executive Group Management Board (EGMB) and the Board of Directors (Board) on 20 March 2020 and issued for approval at the subsequent annual general meeting on 14 April 2020.

#### 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. 27.

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 stated.

#### PRESENTATION OF THE CONSOLIDATED 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 financial statements 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, or has rights, to variable returns from its involvement with the investee 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.

A change in ownership-interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

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.



### 7.3 GENERAL ACCOUNTING POLICIES (CONTINUED)

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

### 7.4 NEW STANDARDS AND INTERPRETATIONS NOT YET IMPLEMENTED

IASB has published certain 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 2019. In addition, IASB has published certain new standards, amendments to existing standards and interpretations, which are not yet adopted by the EU at 31 December 2019.

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.

Based on the current business setup and level of activities, none of these standards and interpretations are expected to have a material impact on the recognition and measurement in the consolidated financial statements.

## 7.5 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%

#### Belgium & Luxembourg

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

#### France

GIE ISS Services	100%
ISS Facility Management SAS	100%
ISS Holding Paris SAS	100%
ISS Logistique et Production SAS	100%
ISS Propreté SAS	100%

#### Germany

ISS Automotive Services GmbH	100%
ISS Energy Services GmbH	100%
ISS Facility Services Holding GmbH	100%
ISS Integrated Facility Services GmbH	100%
ISS IT & Business Services GmbH	100%
ISS Pharma Services GmbH	100%
ISS Soft Services GmbH	100%
ISS Communication Services GmbH	100%

#### Italy

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

#### Netherlands

ISS Catering Services 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%
----------------------------------	------

#### Russia

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

#### Spain & Portugal

Integrated Service Solutions, S.L.	100%
ISS Facility Services, S.A.	100%
ISS Facility Services G. eM de E., Lda	100%
ISS Soluciones De Seguridad, S.L.	100%
UTE- S.A.S.	65% <sup>1)</sup>

#### Switzerland

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

#### Turkey

ISS Hazır Yemek Üretim ve Hizmet A.Ş.	90% <sup>2)</sup>
ISS Proser Koruma ve Güvenlik Hizmetleri A.Ş.	90% <sup>2)</sup>
ISS Tesis Yönetim Hizmetleri A.Ş.	90% <sup>2)</sup>

### NORTHERN EUROPE

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

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

#### Finland

ISS Palvelut Holding Oy	100%
ISS Palvelut Oy	100%
Opset Oy	76% <sup>3)</sup>

#### Norway

ISS Holding AS	100%
ISS Management AS	100%
ISS Facility Services AS	100%
ISS Serveringspartner AS	100%
ISS Service Management AS	100%

#### Sweden

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

#### UK & Ireland

ISS UK Holding Limited	100%
ISS UK Limited	100%
ISS Facility Services Ltd.	100%
ISS Mediclean Limited	100%
ISS Damage Control (Scotland) Limited	100%
Spectrum Franchising Ltd.	100%
ISS Ireland Ltd.	100%

### AMERICAS

#### Mexico

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

#### USA & Canada

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

## 7.5 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%

#### 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 Secuforce Ltd.	100%
ISS China Holdings Ltd.	100%
ISS China Holdings I 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% <sup>4)</sup>
ISS Facility Services India Pvt. Ltd.	100%
ISS SDB Security Services Pvt. Ltd.	46% <sup>4)</sup>
Modern Protection & Investigations Pvt. Ltd.	46% <sup>4)</sup>
ISS Support Services Pvt. Ltd.	100%

#### Indonesia

PT ISS Facility Services	49% <sup>4)</sup>
PT ISS Indonesia	100%
PT ISS Jasa Fasilitas	0% <sup>4)</sup>
PT ISS Parking Management	100%

#### Japan

Nihon ISS KK	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%

### DISCONTINUED OPERATIONS

#### Brazil

ISS Servisystem do Brasil Ltda.	100%
ISS Manutenção e Serviços Integrados LTDA.	100%
ISS Serviços de Logística Integrada LTDA.	100%

#### Brunei

ISS Facility Services Sdn. Bhd.	50% <sup>4)</sup>
---------------------------------	-------------------

#### Czech Republic

ISS Facility Services s.r.o	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%

#### Hungary

ISS Facility Services Kft.	100%
----------------------------	------

#### Malaysia

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

#### Philippines

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

#### Romania

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

#### Slovakia

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

#### Slovenia

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

#### Thailand

ISS Facility Services Co., Ltd.	100%
Notre-Bel Company Limited	100%
ISS Security Guarding Co., Ltd.	100%
ISS Support Services Company Limited	100%

### Notes

<sup>1)</sup> Joint venture.

<sup>2)</sup> 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.

<sup>3)</sup> Associate.

<sup>4)</sup> By virtue of the governance structure, the Group has the power to govern the financial and operating policies of the company. Consequently, the company.

# PARENT COMPANY FINANCIAL STATEMENTS

## PRIMARY STATEMENTS

- 86 Income statement
- 86 Statement of comprehensive income
- 87 Statement of cash flows
- 88 Statement of financial position
- 89 Statement of changes in equity

## ACCOUNTING POLICIES

- 90 1 Significant accounting policies
- 90 2 Significant accounting estimates and judgements

## INCOME STATEMENT

- 90 3 Other operating income and expenses, net
- 91 4 Fees to auditors
- 91 5 Other expenses
- 91 6 Financial income and expenses
- 92 7 Income tax

## STATEMENT OF FINANCIAL POSITION

- 92 8 Investments in subsidiaries and joint ventures
- 94 9 Deferred tax
- 94 10 Loans and borrowings

## OTHER REQUIRED DISCLOSURES

- 95 11 Remuneration to the Board of Directors and the Executive Group Management
- 95 12 Contingent liabilities
- 96 13 Financial risk management
- 98 14 Related parties
- 99 15 New standards and interpretations not yet implemented
- 99 16 Subsidiaries and joint ventures

## INCOME STATEMENT

1 JANUARY – 31 DECEMBER

DKK million	Note	2019	2018
<b>Revenue</b>		-	3
Other operating income and expenses, net	3, 4	113	(58)
<b>Operating profit/(loss) before other items</b>		<b>113</b>	<b>(55)</b>
Other expenses	5	(104)	-
<b>Operating profit/(loss)</b>		<b>9</b>	<b>(55)</b>
Income from subsidiaries and joint ventures	8	340	339
Financial income	6	629	407
Financial expenses	6	(974)	(625)
<b>Profit before tax</b>		<b>5</b>	<b>66</b>
Income tax	7	(8)	(13)
<b>Net profit/(loss)</b>		<b>(3)</b>	<b>53</b>

## STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

DKK million	2019	2018
<b>Net profit/(loss)</b>	<b>(3)</b>	<b>53</b>
<b>Comprehensive income</b>	<b>(3)</b>	<b>53</b>

# STATEMENT OF CASH FLOWS

1 JANUARY – 31 DECEMBER

DKK million	Note	2019	2018
Operating profit/(loss) before other items		113	(55)
Changes in working capital		(5)	(4)
Changes in provisions		(165)	108
Other expenses paid		(14)	-
Interest received from companies within the ISS Group		303	283
Interest received, external		5	0
Interest paid to companies within the ISS Group		(40)	(61)
Interest paid, external		(474)	(368)
Income tax and joint taxation contribution paid, net		(48)	(20)
<b>Cash flow from operating activities</b>		<b>(325)</b>	<b>(117)</b>
Payment of earn-out		(21)	(21)
Capital increase in subsidiaries and joint ventures	8	(507)	(663)
Capital reduction in subsidiaries	8	-	15
Acquisition of subsidiaries and joint ventures	8	(23)	-
Proceeds from sale and liquidation of subsidiaries and joint ventures	8	15	14
Dividends received from subsidiaries and joint ventures	8	1,763	1,132
<b>Cash flow from investing activities</b>		<b>1,227</b>	<b>477</b>
Proceeds from bonds	10	3,695	-
Repayment of bonds	10	(6,717)	-
Other financial payments, net	10	(176)	(36)
Dividends paid to the shareholder		(1,500)	(1,500)
Payments from companies within the ISS Group, net		753	1,621
<b>Cash flow from financing activities</b>		<b>(3,945)</b>	<b>85</b>
<b>Total cash flow</b>		<b>(3,043)</b>	<b>445</b>
Cash and cash equivalents at 1 January		3,176	2,734
Total cash flow		(3,043)	445
Foreign exchange adjustments		0	(3)
<b>Cash and cash equivalents at 31 December</b>		<b>133</b>	<b>3,176</b>

# STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

DKK million	Note	2019	2018
<b>ASSETS</b>			
Investments in subsidiaries and joint ventures	8	21,829	22,715
Receivables from companies within the ISS Group		5,968	5,184
Deferred tax assets	9	0	14
<b>Non-current assets</b>		<b>27,797</b>	<b>27,913</b>
Receivables from companies within the ISS Group		2,472	2,944
Other receivables		198	167
Cash and cash equivalents		133	3,176
Assets held for sale	8	604	554
<b>Current assets</b>		<b>3,407</b>	<b>6,841</b>
<b>Total assets</b>		<b>31,204</b>	<b>34,754</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		<b>5,139</b>	<b>6,642</b>
Loans and borrowings	10	14,135	17,190
Provisions	3	-	165
Deferred tax liabilities	9	15	-
<b>Non-current liabilities</b>		<b>14,150</b>	<b>17,355</b>
Loans and borrowings	10	11,478	10,302
Other liabilities		437	455
<b>Current liabilities</b>		<b>11,915</b>	<b>10,757</b>
<b>Total liabilities</b>		<b>26,065</b>	<b>28,112</b>
<b>Total equity and liabilities</b>		<b>31,204</b>	<b>34,754</b>



## STATEMENT OF CHANGES IN EQUITY

1 JANUARY – 31 DECEMBER

DKK million	Note	Share capital	Retained earnings	Total
<b>2019</b>				
Equity at 1 January		180	6,462	6,642
Net loss		-	(3)	(3)
Comprehensive income		-	(3)	(3)
Dividends paid to the shareholder			(1,500)	(1,500)
Transactions with the owner		-	(1,500)	(1,500)
Changes in equity		-	(1,503)	(1,503)
Equity at 31 december		180	4,959	5,139
<b>2018</b>				
Equity at 1 January		180	4,836	5,016
Net profit		-	53	53
Comprehensive income		-	53	53
Capital increase		0	3,073	3,073
Dividends paid to the shareholder		-	(1,500)	(1,500)
Transactions with the owner		0	1,573	1,573
Changes in equity		0	1,626	1,626
Equity at 31 December		180	6,462	6,642

## 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 7.2 to the 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.

**Revenue** relates to rendering of services managed by the Group's Global Operations and is recognised over time.

**Income from subsidiaries and joint ventures** comprises dividends, impairment losses, reversal of prior years' impairment losses and gains and losses on 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 3.8 to the 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 tax 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).

**Derivative financial instruments** are initially recognised at fair value at the trade date and subsequently remeasured at fair value.

The fair value of derivative financial instruments is calculated on the basis of current market data and in accordance with generally accepted valuation methods. Measurement is categorised as Level 2 in the fair value hierarchy as it is not based on observable market data.

For derivative financial instruments used as net investment hedges at Group level, changes in the fair value are recognised in Financial income or Financial expenses.

The fair value of derivative financial instruments is presented in Other receivables or Loans and borrowings.

## 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 7.1 to the 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 OTHER OPERATING INCOME AND EXPENSES, NET

In 2019, the provision of DKK 165 million related to the guarantee issued by ISS Global A/S to cover ISS Brazil's net debt was released. The decrease was caused by a debt forgiveness of ISS Lending A/S's receivable against ISS Brazil and a revised estimate of the expected net sales price of ISS Brazil.

#### 4 FEES TO AUDITORS

DKK million	2019	2018
Statutory audit	0	0
Other assurance services	0	1
<b>Total</b>	<b>0</b>	<b>1</b>

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

#### 5 OTHER EXPENSES

DKK million	2019	2018
Loss on divestments	(104)	-
<b>Other expenses</b>	<b>(104)</b>	<b>-</b>

**Loss on divestments** comprised divestment-related costs and impairment loss on an intercompany receivable in connection with the sale of the Group's activities in Israel (country exit).

#### 6 FINANCIAL INCOME AND EXPENSES

DKK million	2019	2018
Interest income on cash and cash equivalents	3	0
Interest income from companies within the ISS Group	300	283
Foreign exchange gains	326	124
<b>Financial income</b>	<b>629</b>	<b>407</b>
Interest expenses on loans and borrowings	(335)	(281)
Forward premiums, currency swaps	(93)	(99)
Fair value adjustments of net investment hedges	(143)	-
Interest expenses to companies within the ISS Group	(40)	(62)
Amortisation of financing fees (non-cash)	(27)	(22)
Bank fees	(5)	(4)
Foreign exchange losses	(331)	(157)
<b>Financial expenses</b>	<b>(974)</b>	<b>(625)</b>

**Interest expenses on loans and borrowings** was negatively impacted by the early refinancing of the EUR 700 million EMTNs maturing January 2020, which resulted in higher gross debt from June, when the new 7-year EMTNs were issued, until the 2020 EMTNs were repaid in October. Furthermore, interest expenses increased due to higher average net debt during 2019 as well as the higher leverage in the second half of 2019, which resulted in a higher credit margin on drawings on the revolving credit facilities.

**Forward premiums on currency swaps** decreased slightly as a result of lower amount of EUR/USD swaps during 2019.

**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.

## 7 INCOME TAX

DKK million	2019	2018
Current tax	(5)	(16)
Deferred tax	(29)	5
Adjustments relating to prior years, net	26	(2)
<b>Income tax</b>	<b>(8)</b>	<b>(13)</b>

## EFFECTIVE TAX RATE

In %	2019	2018
Statutory income tax rate in Denmark	22.0 %	22.0 %
Income from subsidiaries and joint ventures	(1,466.7)%	(114.4)%
Non-tax deductible expenses less non-taxable income	2,111.3 %	109.1 %
Adjustments relating to prior years, net	(509.8)%	3.0 %
<b>Effective tax rate</b>	<b>156.8 %</b>	<b>19.7 %</b>

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

## 8 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

DKK million	2019	2018
Cost at 1 January	27,378	29,798
Additions <sup>1)</sup>	636	663
Acquisitions	23	-
Capital reductions	-	(15)
Disposals	-	(572)
Reclassification to assets held for sale	(222)	(2,496)
<b>Cost at 31 December</b>	<b>27,815</b>	<b>27,378</b>
Revaluation at 1 January	(4,663)	(6,370)
Impairment losses	(1,538)	(791)
Reversal of prior years' impairment losses	45	-
Disposals	-	556
Reclassification to assets held for sale	170	1,942
<b>Revaluation at 31 December</b>	<b>(5,986)</b>	<b>(4,663)</b>
<b>Carrying amount at 31 December</b>	<b>21,829</b>	<b>22,715</b>

<sup>1)</sup> In 2019, DKK 129 million was related to non-cash transactions (2018: DKK 0 million).

**Additions** In 2019, ISS Global A/S made capital increases in their subsidiaries in Germany of DKK 262 million, the Netherlands of DKK 157 million, Brazil of DKK 136 million, Turkey of DKK 62 million and Hungary of DKK 18 million. Furthermore, a new subsidiary in Malaysia was founded with a share capital of DKK 1 million.

**Acquisitions** In 2019, ISS Global A/S acquired the shares in Latvia and Lithuania from their Estonian subsidiary for a total price of DKK 23 million.

**Disposals** In 2018, ISS Global A/S's investment in Greece with a net book value of DKK 16 million was sold, resulting in a minor loss of DKK 2 million.

**Reclassification to assets held for sale** In 2018, the Group decided to divest 15 countries, which were classified as held for sale. During 2019, four of these countries were divested of which three were directly owned by ISS Global A/S; Argentina, Uruguay and Estonia which resulted in net proceeds of DKK 5 million. The investments in the remaining 11 countries and one business unit continues to be classified as held for sale at 31 December 2019, see note 3.4 to the consolidated financial statements for a list of the countries.

## 8 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

**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 3.8 to the consolidated financial statements. Subsidiaries classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses recognised in 2019, see below.

DKK million	Impairment losses 2019	Recoverable amount	Applied discount rate, net of tax
<b>Investments in subsidiaries and joint ventures</b>			
France <sup>1)</sup>	(1,060)	500	-
Netherlands	(190)	449	7.5%
ISS Lending A/S	(118)	3,947	-
<b>Assets held for sale</b>			
Brazil	(136)		
Hungary	(18)		
PT ISS Parking Management	(16)		
<b>Impairment losses</b>	<b>(1,538)</b>		

<sup>1)</sup> The French activities are owned through a holding company, ISS Holding France A/S. The recoverable amount is based on the equity at 31 December 2019 in this holding company.

The investment in France was impaired by DKK 1,060 million mainly driven by a decrease in the recoverable amount following the divestment of the Hygiene & Prevention business and a delay in the net benefits from the ongoing reorganisation of our operations.

**Reversal of prior years' impairment losses** In 2019 it was assessed that the remaining impairment losses recognised in Mexico in previous years of DKK 45 million are eligible for reversal following years of a stable and strong improvement in the recoverable amount. In 2018, no losses were reversed.

### INCOME FROM SUBSIDIARIES AND JOINT VENTURES

DKK million	2019	2018
Received dividends <sup>1)</sup>	1,830	1,132
Proceeds from sale and liquidation of subsidiaries and joint ventures	5	14
Carrying amount of disposed subsidiaries and joint ventures	(2)	(16)
Impairment losses	(1,538)	(791)
Reversal of prior years' impairment losses	45	-
<b>Income from subsidiaries and joint ventures</b>	<b>340</b>	<b>339</b>

<sup>1)</sup> In 2019, DKK 67 million was related to non-cash transactions.

### SUBSIDIARIES AND JOINT VENTURES

For a list of significant directly owned subsidiaries and joint ventures, see note 16, Subsidiaries and joint ventures.

## 9 DEFERRED TAX

### DEVELOPMENT IN DEFERRED TAX

DKK million

	2019	2018
Deferred tax assets at 1 January	14	9
Tax on profit before tax	(29)	5
<b>Deferred tax (liabilities)/assets at 31 December</b>	<b>(15)</b>	<b>14</b>

Deferred tax liabilities include provisions for uncertain tax positions. ISS Global A/S has no recognised or unrecognised deferred tax assets regarding tax losses carried forward.

## 10 LOANS AND BORROWINGS

DKK million

	2019	2018
Issued bonds	14,123	17,121
Bank loans	(7)	(25)
Debt to companies within the ISS Group	11,497	10,396
<b>Total</b>	<b>25,613</b>	<b>27,492</b>
Non-current liabilities	14,135	17,190
Current liabilities	11,478	10,302
<b>Loans and borrowings</b>	<b>25,613</b>	<b>27,492</b>
Cash and cash equivalents and other financial items <sup>1)</sup>	(8,619)	(11,302)
<b>Net debt</b>	<b>16,994</b>	<b>16,190</b>

<sup>1)</sup> Includes certain receivables from companies within the ISS Group of DKK 8,444 million (2018: DKK 8,115 million) and positive value of currency swaps of DKK 41 million (2018: DKK 11 million). The average interest rate related to receivables from companies within the ISS Group was 2.25% (2018: 2.10%).

### CHANGES IN LOANS AND BORROWINGS

DKK million

	2019	2018
Loans and borrowings at 1 January	27,492	30,794
Foreign exchange adjustments	7	52
Proceeds from bonds	3,695	-
Repayment of bonds	(6,717)	-
Other financial payments, net	(176)	(36)
Fair value adjustment of net investment hedges	143	-
Realised foreign exchange gains/losses, net	4	-
Debt conversion (non-cash)	-	(4,800)
Payments (to)/from companies within the ISS Group, net	1,101	1,434
Other non-cash movements	64	48
<b>Loans and borrowings at 31 December</b>	<b>25,613</b>	<b>27,492</b>

## 10 LOANS AND BORROWINGS (CONTINUED)

### FAIR VALUE

The fair value of loans and borrowings amounted to DKK 26,034 million (2018: DKK 27,732 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 13, Financial risk management.

### FINANCING FEES

In 2019, financing fees amounting to DKK 41 million (2018: DKK 4 million) have been recognised in loans and borrowings while financing fees of DKK 27 million (2018: DKK 22 million) have been amortised and recognised in financial expenses. Accumulated financing fees recognised in loans and borrowings on 31 December 2019 amounted to DKK 93 million (2018: DKK 79 million).

## 11 REMUNERATION TO THE BOARD OF DIRECTORS AND THE EXECUTIVE GROUP MANAGEMENT

Key management personnel of the Group as defined in 5.1 to the consolidated financial statements are also considered key management personnel of the parent.

Remuneration to key management personnel is specified in 5.1 to the consolidated financial statements.

## 12 CONTINGENT LIABILITIES

### SENIOR FACILITY AGREEMENT

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

### PARENT COMPANY GUARANTEES

ISS Global A/S has credit facilities in place totalling DKK 300 million (2018: DKK 300 million) which can be used to issue guarantees for subsidiaries' local bank overdrafts. As per 31 December 2019, DKK 185 million was utilised (2018: DKK 48 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 8.2 billion (2018: DKK 7.9 billion). These financial liabilities are primarily local bank overdrafts, bank guarantee lines and pension liabilities.

### WITHOLDING 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 2019 Danish corporate and withholding taxes within the joint taxation amounted to DKK 0 million (2018: 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.



### 13 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 of ISS A/S. The objectives, policies and processes for measuring and managing the exposure to financial risks is described in 4.4 to the consolidated financial statements. The risks specific to ISS Global A/S are described below.

#### CREDIT RISK

At 31 December 2019, the exposure to credit risk related to cash and cash equivalents, loans to companies within the ISS Group and other financial items was DKK 8,619 million (DKK 11,302 million), see note 10, Loans and borrowings. Exposure to credit risk on loans to companies within the ISS Group is managed at Group level. As these loans are controlled by the Group and part of the Group's capital management, expected credit losses are considered to be insignificant.

#### 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. Exposure relates to bank loans with floating interest rates. 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.

DKK million				2019		2018
	Nominal interest rate	Currency	Year of maturity	Nominal value	Carrying amount	Carrying amount
<b>Issued bonds (fixed interest rate)</b>						
EMTNs (EUR 700 million)	1.125%	EUR	2020	-	-	5,220
EMTNs (EUR 500 million)	1.125%	EUR	2021	2,241	2,238	3,724
EMTNs (EUR 500 million)	2.125%	EUR	2024	3,735	3,721	3,717
EMTNs (EUR 500 million)	0.875%	EUR	2026	3,735	3,701	-
EMTNs (EUR 600 million)	1.500%	EUR	2027	4,481	4,463	4,460
				<b>14,192</b>	<b>14,123</b>	<b>17,121</b>
<b>Bank loans (floating interest rate)</b>						
Revolving Credit Facility (EUR 1,000 million) <sup>1)</sup>	Libor + 0.60%	Multi	2024	17	(7)	(25)
				<b>17</b>	<b>(7)</b>	<b>(25)</b>
<b>Intra-group (floating interest rate)</b>						
Debt to companies within the ISS Group	-	Multi	2019	11,497	11,497	10,531
				<b>11,497</b>	<b>11,497</b>	<b>10,531</b>

<sup>1)</sup> The Revolving Credit Facility was extended in November 2019 to mature in November 2024. The current margin of 1.00% will decrease to 0.60% in February 2020 as a result of lower leverage in the ISS A/S Group. 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%.

#### INTEREST RATE SENSITIVITY

The interest rate risk is measured by the duration of the gross debt (fixed-rate period). As at 31 December 2019, the duration of gross debt was approximately 3.1 years (2018: 2.7 years).

An increase in relevant interest rates of 1%-point would have decreased net profit by DKK 29 million (2018: decreased by DKK 21 million).

The estimate was based on ISS Global A/S's floating rate loans and borrowings, 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 remain constant.

### 13 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 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 2019, ISS Global A/S's liquid reserves consisted of readily available liquid funds of DKK 133 million (2018: DKK 3,176 million) and unused revolving credit facilities of DKK 7,125 million (2018: DKK 6,947 million) where the majority is available for drawing until 3 November 2024.

#### CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

The contractual maturities of financial liabilities, based on undiscounted contractual cash flows, are shown in the table. The undiscounted contractual cash flows include expected interest payments, estimated based on market expectations at 31 December. 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
<b>2019</b>								
Issued bonds and bank loans	14,116	15,355	221	2,421	179	179	3,908	8,447
Debt to companies within the ISS Group	11,497	11,568	11,568	-	-	-	-	-
Other financial liabilities	309	347	208	31	108	-	-	-
<b>Total financial liabilities</b>	<b>25,922</b>	<b>27,270</b>	<b>11,997</b>	<b>2,452</b>	<b>287</b>	<b>179</b>	<b>3,908</b>	<b>8,447</b>
<b>2018</b>								
Issued bonds and bank loans	17,096	18,376	247	5,417	3,881	147	147	8,537
Debt to companies within the ISS Group	10,396	10,472	10,401	71	-	-	-	-
Other financial liabilities	306	352	237	36	29	50	-	-
<b>Total financial liabilities</b>	<b>27,798</b>	<b>29,200</b>	<b>10,885</b>	<b>5,524</b>	<b>3,910</b>	<b>197</b>	<b>147</b>	<b>8,537</b>

### 13 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, investment 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 2019, 87% (2018: 88%) of ISS Global A/S's loans and borrowings were denominated in EUR or DKK.

#### LOANS AND BORROWINGS – FOREIGN CURRENCY SENSITIVITY

A change in relevant currencies, with all other variables held constant, would have impacted net profit with the amounts below. The analysis is based on the ISS Group's internal monitoring of currency exposure on loans and borrowings, intercompany loans and cash and cash equivalents.

DKK million	Currency exposure (nominal value)	Currency swaps (contractual value)	Total exposure, net	Sensitivity	Net profit
				Increase in foreign exchange rates	
<b>2019</b>					
EUR/DKK	(13,984)	6,545	(7,439)	1%	(74)
GBP/DKK	293	(2,740)	(2,447)	10%	(245)
USD/DKK	1,711	(2,437)	(726)	10%	(73)
CHF/DKK	(436)	(247)	(683)	10%	(68)
Other/DKK	(761)	774	13	10%	1
<b>Total</b>	<b>(13,177)</b>	<b>1,895</b>	<b>(11,282)</b>		
<b>2018</b>					
EUR/DKK	(16,196)	8,304	(7,892)	1%	(79)
Other/DKK	2,282	(2,309)	(27)	10%	(3)
<b>Total</b>	<b>(13,914)</b>	<b>5,995</b>	<b>(7,919)</b>		

#### NET INVESTMENT HEDGES

Net investment hedges at Group level are disclosed in note 4.7 to the consolidated financial statements. At Group level changes in the fair value of derivative financial instruments designated as net investment hedges are recognised in Other comprehensive income. In ISS Global A/S the change in fair value is recognised in the income statement.

### 14 RELATED PARTIES

In addition to the description in note 6.3 to the 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 7.5 to the consolidated financial statements.

In 2019, 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 6, Financial income and expenses.
- Debt to companies within the ISS Group is disclosed in note 10, Loans and Borrowings.
- ISS Global A/S's short-term receivable from subsidiaries was DKK 2,472 million (2018: DKK 2,944 million).
- ISS Global A/S paid joint taxation contribution equal to 22% of taxable income to jointly taxed Danish resident subsidiaries.
- ISS Global A/S received dividends in total of DKK 1,830 million (2018: DKK 1,132 million) from companies within the ISS Group, see note 8, Investments in subsidiaries and joint ventures.
- ISS Global A/S increased the share capital in five subsidiaries by DKK 636 million (2018: DKK 663 million in five subsidiaries) and acquired two subsidiaries from their Estonian subsidiary for DKK 23 million (2018: none), see note 8, Investments in subsidiaries and joint ventures.

## 15 NEW STANDARDS AND INTERPRETATIONS NOT YET IMPLEMENTED

New standards and interpretations not yet implemented are described in 7.4 to the consolidated financial statements.

## 16 SUBSIDIARIES AND JOINT VENTURES

### SIGNIFICANT DIRECTLY OWNED SUBSIDIARIES AND JOINT VENTURES

ISS Facility Services Australia Ltd.	Australia	100%
Pacific Invest December 2004 Pty Ltd.	Australia	100%
ISS Austria Holding GmbH	Austria	100%
ISS N.V.	Belgium	100%
ISS Greater China Ltd.	China	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	84%
ISS Palvelut Holding Oy	Finland	100%
ISS Facility Services GmbH	Germany	100%
ISS Facility Services India Pvt. Ltd.	India	100%
PT ISS Indonesia	Indonesia	100%
PT ISS Catering Services	Indonesia	49%
ISS Ireland Holding Limited.	Ireland	100%
ISS Facility Services S.r.l.	Italy	100%
Nihon ISS KK	Japan	100%
ISS Latvia	Latvia	100%
ISS Lietuva UAB	Lithuania	100%
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 Sp. Z.o.o.	Poland	100%
ISS Facility Services, Lda.	Portugal	100%
FS East Oy	Russia	100%
ISS Asia Pacific Pte. Ltd.	Singapore	100%
ISS Facility Services Pte. Ltd.	Singapore	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% <sup>1)</sup>
ISS Facility Services Holding AB	Sweden	100%
ISS Holding AG	Switzerland	100%
ISS Tesis Yönetim Hizmetleri A.Ş.	Turkey	90%
ISS UK Holding Limited.	United Kingdom	100%

### SIGNIFICANT DIRECTLY OWNED SUBSIDIARIES AND JOINT VENTURES CLASSIFIED AS HELD FOR SALE

ISS Sulamericana Brasil Ltda.	Brazil	100%
ISS Facility Services Sdn. Bhd.	Brunei	100%
ISS Chile S.A.	Chile	100%
ISS Facility Services s.r.o.	Czech Republic	100%
ISS Facility Services Kft.	Hungary	100%
ISS Facility Services Sdn. Bhd.	Malaysia	30%
ISS Facility Services Phils., Inc.	Philippines	100%
3D Romania S.A.	Romania	100%
ISS Facility Services spol s r.o.	Slovakia	100%
ISS Facility Services d.o.o.	Slovenia	100%
ISS Facility Services Co., Ltd.	Thailand	100%
PT ISS Parking Management	Indonesia	100%

<sup>1)</sup> Joint venture.

# MANAGEMENT STATEMENT

## COPENHAGEN, 20 MARCH 2020

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 2019.

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 2019 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 2019.

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



**Kristoffer Lykke-Olesen**

## BOARD OF DIRECTORS



**Jeff Gravenhorst**  
Chairman



**Pierre-François Riolacci**



**Bjørn Raasteen**

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDER 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 2019, pp. 27–84 and pp. 85–99, 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 consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2019 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 2019 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 and Risk 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 "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "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 reappointed annually by resolution of the general meeting for a total consecutive period of sixteen years up to and including the financial year 2019.

### 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 2019. 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 "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to the key audit matters. 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.

### **Revenue from contracts with customers, including cut-off and accrual of revenue and onerous contracts**

Revenue from contracts is recognised as the services are rendered to the customers. Some contracts require ISS to incur significant transition and mobilisation costs at contract inception which are capitalised and amortised over a multi-annual contract term. Accordingly, appropriate cut-off and accrual of revenue and capitalisation and amortisation of transition and mobilisation costs is critical and involve management judgement, especially in relation to the more integrated and complex facility service contracts. Further, the assessment of whether a contract may be considered onerous involves management judgement in making accounting estimates about future contract profitability, including the determination of the total contract revenue, contract period and the unavoidable costs of meeting the obligations under the contract.

Due to the inherent uncertainty involved in the cut-off and accrual of revenue, the assessment of whether transition and mobilisation costs meet the criteria to be capitalised and the determination of the contract period and the future contract profitability, we considered the accounting for revenue from contracts with customers, including cut-off and accrual of revenue and onerous contracts, to be a key audit matter.

For details on revenue from contracts with customers, transition and mobilisation costs and provisions for onerous contracts, reference is made to notes 1.2, 2.2, 2.3 and 2.6 in the consolidated financial statements.

In response to the identified risks, our audit procedures included, among others:

- Test of details on a sample basis of accrued revenue (unbilled receivables) to supporting documentation, including procedures such as: Inspection of proof of work done, review of contracts with customers, comparison amounts accrued to subsequent invoices and cash receipts.
- Test of details on a sample basis of capitalised transition and mobilisation costs, including procedures such as: Inspection of proof of costs incurred, review of contracts with customers, evaluation of management's assessment of costs meeting the criteria to be recognised.
- Evaluation of management's process to identify and quantify onerous contracts. Our evaluation included inquiries to local management responsible for carrying out the identification process at

country level, review of documentation of management's analysis as well as our own analytical procedures over contract margins to corroborate management's analysis.

- Test of details on a sample of provisions for onerous contracts, including procedures such as: Review of the relevant contract and management's estimate of the future contract revenue and unavoidable cost, assessment of the assumptions applied by management to estimate the future contract revenue, contract term including termination and extension options and unavoidable cost, comparison of the revenue assumptions used to the services and fees specified in the contract, comparison of unavoidable cost assumptions used to underlying cost projections and actual costs incurred historically as well as testing the completeness and accuracy of the underlying cost projections.

### **Assets and liabilities held for sale and discontinued operations**

When classifying businesses as held for sale and as discontinued operations in the consolidated financial statements, management makes judgements and estimates, including assessment of impairment of the net assets. Due to the materiality of management's disposal plans and inherent uncertainty involved in classifying and assessing assets and liabilities held for sale and discontinued operations, we considered these judgements and estimates as a key audit matter.

For details on the assets and liabilities held for sale and discontinued operations reference is made to note 3.1 and note 3.2 in the consolidated financial statements.

In response to the identified risks, our audit procedures included, among others, agreeing the carrying amounts of the assets and liabilities held for sale to underlying accounting records, discussing with and challenging management on the criteria for classification of businesses as held for sale and discontinued operations and reading draft agreements where relevant, including reviewing minutes and other relevant documentation of the sales processes and board decisions. We considered the impairment 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.



### Valuation of intangible assets

The carrying amounts of goodwill and customer contracts related to prior years' acquisitions comprise a significant part of the consolidated statement of financial position. 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 3.6, 3.7 and 3.8 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.

### Income tax and 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 recognition of income taxes and deferred taxes. Given the inherent uncertainty involved in assessing and estimating the income tax and deferred tax balances, including tax exposures and write-down of deferred tax assets, we considered these balances as a key audit matter.

For details on the income tax and deferred tax balances reference is made to notes 1.5 and 1.6 in the consolidated financial statements and notes 7 and 9 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 taxes and deferred taxes, 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 8 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 is responsible for the Management's review, pp. 1-26.

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 misstatement of the Management's review.

## MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of consolidated financial statements and parent company 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**COPENHAGEN, 20 MARCH 2020**

**ERNST & YOUNG**

Godkendt Revisionspartnerselskab  
CVR-no. 30700228



**Torben Bender**  
State Authorised  
Public Accountant  
MNE-no.: mne21332



**Claus Kronbak**  
State Authorised  
Public Accountant  
MNE-no.: mne28675

# DEFINITIONS

## FINANCIAL RATIOS

### Acquisitions, %

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

### Currency adjustments

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

### Divestments, %

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

### EBITDA before other items

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

### Equity ratio, %

$$= \frac{\text{Total equity} \times 100}{\text{Total assets}}$$

### Free cash flow

$$= \text{Cash flow from operating activities} - \text{Acquisition of intangible assets and property, plant and equipment, net} - \text{Acquisition of financial assets, net (excluding equity-accounted investees)} - \text{Addition of right-of-use assets, net}$$

### Free cash flow conversion

$$= \frac{\text{Free cash flow last twelve months (LTM)} \times 100}{\text{Operating profit before other items (LTM)}}$$

### 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, %

$$= \frac{(\text{Revenue current year} - \text{Comparable revenue}^{4)} \text{ prior year}) \times 100}{\text{Comparable revenue}^{4)} \text{ prior year}}$$

### Total revenue growth, %

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

## NON-FINANCIAL RATIOS

### Customer retention, %

$$\text{Measures the amount of revenue retained through the year}$$

$$= \frac{\text{Revenue retained at the year end}}{\text{Revenue retained at the beginning of the year}}$$

### Employee turnover, %

$$= \frac{\text{Number of employees who have left during the year}}{\text{Average number of employees for the year}}$$

### Lost Time Injury Frequency (LTIF)

$$\text{Measures the number of incidents classified as lost time injuries per millions of hours worked}$$

## FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements, including, but not limited to, the guidance and expectations in Outlook on p. 4. 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.

<sup>1)</sup> Based on management's expectations at the acquisition date.

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

<sup>3)</sup> Based on estimated or actual revenue where available at the divestment date.

<sup>4)</sup> 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.