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Speakers: Jeff Gravenhorst, Henrik Andersen, Barbara Plucnar Jensen

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OPERATOR: Welcome to the ISS interim report Q1 2013 call. At this time all participants are in listen only mode. Later we will conduct a question and answer session. Please note that this conference is being recorded. Your conference will begin momentarily. A short introduction will now be played before the presentation begins. After the introduction, the call will be turned over to IR, Martin Kjær Hansen.

MARTIN KJÆR HANSEN: Ladies and gentlemen, welcome to the investor call and presentation for the results for the first quarter of 2013. Please be aware that our announcement report as well as the slides used for this call can be found on the website where the webcast will also be available after the call.

I would like to draw your attention to slide number 2 regarding the forward looking statements. If you turn to slide number 3, you will find the agenda for this call. We will go through a few key events as well as give you an update on management changes. Following this, we will go through the quarterly results as well as the capital structure. We will conclude with the outlook for 2013 followed by a Q&A session.

With me today I have Group CEO, Jeff Gravenhorst, Group CFO and COO, Henrik Andersen and Group Treasurer, Barbara Plucnar Jensen. I, therefore, give my word to Group CEO, Jeff Gravenhorst, on the key events and management changes.

We have had a big refinancing event. We will take you through a couple of details on that and then divestment of some of the core activities, particularly in this case, in this first quarter, on the update of the pest controls divestment throughout 12 countries in ISS. Then a little bit about an international recognition of which we are very, very proud as an organisation.

So, to turn to the first thing first on the next page, page 6, the operational performance overall. We have continued to generate profitable organic growth with satisfactory payment conditions. These are very important conditions for us to take on new businesses; that, of course, also in parts of the world where the macroeconomics are somewhat difficult still. We do exist on having decent payment conditions and, of course, always profitable contracts.

So, in Q1, this was in line with expectations. Basically, a flat operating margin but a positive organic growth of close to 3% and a very good and very strong cash conversion. The emerging markets are still a strong driver for us on the growth side as well as on the margin side, so that also continues in line with expectations.

At the end of 2012, we announced the win of Barclays, Novartis and Citi across Asia-Pacific. All three of these accounts are all very large accounts and across a number of countries, going from regional to global accounts. Of course, that takes a while to start up but we started those in the beginning of 2013 with a very good success.

The Novartis contract started 5 January 2013, Barclays started at the end of 2012 and is now up to 90% operational by the end of the first quarter. When we say "the start" it is basically the start of the base contracts. That means we will also see after the full implementation of the base contract, we will see the one-off work and one larger IFS contract with an international food producer which has also started to kick in at the end of the first quarter and during the second quarter. We are not allowed to disclose the name of the company yet but that will come in due course. So, good success basically on the operational performance.

If we can turn to page 7, the second key event in the first quarter has been a significant refinancing of the senior facilities throughout the group. That was completed. We announced it in connection with our annual investor call and we completed the refinancing successfully on 22 April 2013, basing the commitment for the refinancing and both for the extent and the amendment of the senior facilities. So, basically we have extended the majority of the senior facilities by three years, so it matures now in 2017 and 2018. Barbara will come back to that in much more detail. We had the amendments which has increased the operational financial flexibility which is important for us also going forward and basically also made sure that we can use these facilities after a potential IPO.

Secondly, the facility has been refinanced by a €330 million and US$350 million senior term loan which matures in 2018. But, as I said, Barbara will come back to how that now looks as a capital structure overall.

So, turning to page 8, the third key event has been a significant divestment of one our non-core activities throughout 12 countries in ISS. From a strategic perspective, we have decided that in these 12 countries the pest control business is not really core to what ISS does. This is because of the very, very hard focus on The ISS Way strategy of providing integrated facility services to larger facilities throughout the world. This is where we win the Barclays' contract, the XP contract, Sony's and the local IFS business as well.

So, in Q1, we announced that we would sell off the pest control business in Australia, Austria, Belgium, Denmark, Germany, Italy and The Netherlands, New Zealand, Norway, Portugal, Spain and Switzerland and that for a total enterprise value of approximately DKK 2 billion.

Now, we announced earlier at the last investor call that we are starting this non-core divestment programme and we will raise around DKK 2 billion in proceeds. So this is of course a very good step towards the first milestone. These proceeds that come in from the closure, which is expected at the end of May, will be used to pay down the most expensive part of our debt. We will continue this programme and we will continue to look at our platform, firstly to sell our business and do the de-leveraging but also thereby focusing the rest of our business on The ISS Way strategy as I just said before. With that, we are holding eight other businesses for sale at the end of the first quarter. That is also on track, actually very much on track.

If we can turn to page 9, we are also, as a key event, extremely proud to be awarded the number one position at the International Association of Outsourcing Professionals. This is for business process outsourcing businesses and not for task outsourcing processes. That means this is not the best cleaning company in the world; this is the best process outsourcing company in the world. We are very proud of that. On this list, we are ranked ahead of companies also within the IT industry and other business process industries. So, of course we are very proud of that and that is a result, of course, of us striving to become the world's greatest service organisation.

With that, we also want to focus a little bit on strengthening our management and if country manager in our largest operation, both from a size and earnings perspective, but also the leading organisation in terms of The ISS Way implementation, I can think of no better person to take over and running as a COO for the European division and, thereby, escalating all the operational efficiencies that we need to do in Europe.

With that, of course, we have then appointed a new CFO to the group and the new CFO comes from a very strong international Danish-based company called Grundfos which has some very strong values and a very strong performance culture. This is Heine Dalsgaard who has a long and very, very good track record behind him but, as I said, he was CFO for Grundfos which is a Danish pump organisation. So, I am very happy to see that happening. Henrik has already taken the responsibility for the European region and, therefore, is announced as also a COO today. But Henrik has taken the position of CFO until Heine will join us which is expected to be around August 2013. So, very happy with this strengthening of the organisation. We are very happy with the results so far this year on the divestment programme, the refinancing and on the operational level.

With that, I would like to go into more details on the numbers. So, please, Henrik if you can help us go through the financial results.

HENRIK ANDERSEN: Thank you so much, Jeff. Let's take it to slide number 13 and just the short summary of our key objectives. If we look at the organic growth, the organic growth for Q1 ended at 2.7% for the quarter. I think the Q1 2.7% should, of course, be compared against the 1.7% we realised for the full year of 2012 and also ended at 1.9% for Q4 in 2012. So I would say, supported by Jeff's introduction, yes we are

I think it is driven by last year's contracts. It is also driven by strong growth from the emerging markets and to some extent, also, unfortunately offset by some of the challenging macroeconomic conditions in particularly some of the European countries. Still, we see somehow a below normal spend in what we will call non-portfolio services meaning the ones only.

If we look to operating margin, an operating margin of 4.4% versus 4.5% in Q1 2012. I think our operating margin for the first quarter was in line with our expectations. We have seen a positive effect from the Nordic region and in certain countries in Asia but we have also seen that has been slightly negatively impacted from some operational challenges in certain countries around the world and also that we have, of course, divested some non-core activities in 2012 with the result that it has taken a little bit off our margin.

If we look at cash conversion, cash conversion is very stable at a high level and we ended 99 for the Q1. I think what we also discussed when we announced our full year, the Q1 ending was challenging simply due to the fact it was an Easter weekend. So, we are quite pleased to see that we ended 99 and you will also see when we go through the regions, all regions have performed and contributed to this result.

I will ask you to flip to slide number 14, where we will just see the revenue growth by region. You will see in Western Europe, we ended up having a 3% organic growth. We had divestment of a bit more than a percent and negative effect from FX. So we ended net positive growth in Western Europe of 1%. But I think, particularly in Western Europe, having a 3% organic growth is worth taking note of.

In the Nordics, you will have seen in our announcement this morning that we are the Nordic of around 1% which means that we had an overall net growth of just around 2% in the Nordics.

Asia, another very strong quarter, another very good quarter continued the trend from 2012 and prior, 13% up, and we had a slight negative impact from the FX out there, so we ended up having 12% in net growth from the region.

Pacific, still we have had some contract losses during 2012 and especially coming towards the second half of 2012. In Australia, the effect was a negative organic growth of 2%. We have a negative FX of 1%, so 3% negative for the Pacific.

Latin America, I think we have discussed Latin America. We have seen stable conditions in Latin America growing around 7%. We are quite pleased with that. We are still balancing Latin America back on its feet which we will come back and touch on when we see the margin side as well.

North America, good first quarter, 7% growth. Not a lot to add in FX there and thereabouts and that is mainly down to contract wins by end of last year. So, we are looking positive on that one.

Eastern Europe, around flat. We have started quite a number of contracts recently in the first quarter. We are happily looking at those but that also compensated that we ended second half of last year slightly negative; so having a first quarter coming out with flat for Eastern Europe we are quite pleased with.

Above all for the group, as I said, 2.7%. We had approximately a small percentage in divestments and we had a negative FX of half a percent which, net, brings us to 1.3% growth.

If we go to slide 15 and look at the operating margin, you will see that Western Europe we are three-tenths down compared to last year. Part of that is of course

In the Nordics, we are two-tenths forward compared to Q1 in 2012. We are pleased with that.

In Asia, we are a tenth forward and I think that, of course, also illustrates the benefit of growth and at the same time being a 7% EBITA margin plus. Of course it is very, very important to us.

Pacific, we are 5.5% last year versus this year of 4.7% and that is mainly down to some challenging start-ups and we have also had a challenging contract where we know we have had a slightly worse performance compared to Q1 2012.

In Latin America, when we compared Q1 2012 with Q1 2013, it is a comparison between 4.9% to 3.7%. I think for most people it will also have to compare up against both Q3 and Q4 last year, and actually 3.7% in Latin America means that we are starting making progress back from where we ended Q4 in 2012. So, we are positively over the Latin America margin and the improvements they have made since our Q4 2012.

North America, we are 2.9%. Mainly that is down to we are working hard with some of the large contracts and the market in the US. But we have seen 2.9% versus 3.3% quarter on quarter.

Eastern Europe, we are slightly down from 4.4% to 3.8%. Mainly that is due to a couple of very large start-ups we have had in the region and we talk about large start-ups particularly in Slovenia and Slovakia and, therefore, we know we have some catch up to do. But we expect that to happen over the year when we look at Eastern Europe.

Corporate costs, we keep our focus from last year as well; keep the cost structure in control. We ended having 0.4% versus 0.5% in corporate costs for Q1 2013 against unchanged and you will see that attention goes through. Asia is quite notable where we do 91% cash conversion and we are also having a 13% organic growth, so we can only be pleased with that. I think we have done some catch up in Latin America and the Pacific in Q1 which we can only also be very pleased with.

So, all in all, Q1 2013, we ended 99% versus an LTM Q1 at 2012 at 97%. But in reality that is very well done and it isn't really the biggest effect between 97% and 99%. It is the stability that matters.

We just want also to highlight for people on this call that I think one of the most notable changes in the income statement is the financial income and expenses where, of course, we have seen by repaying the 11% bond by December 2012, our savings are coming through in interest and we have also seen thereby a slightly average lower net debt in ISS compared to what was Q1 2012, of course, as we had the capital increase from our two new investors, OTPP and KIRKBI.

So, it was just to illustrate for you that we ended net profit for Q1 2013 at plus DKK 71 million versus a Q1 in 2012 of minus DKK 116 million. The other things are very much minor differences to that but the main reason is the financial income. We believe that is very much the plan for also the remainder part of the year.

With that, I would very much like to hand over to Barbara who will take us through the capital structure and give us an overview of that.

BARBARA PLUCNAR JENSEN: Thank you very much, Henrik. If you turn to slide 19, you can see the continued focus on RD leveraging. We are at a stable level when it comes to leverage at the end of Q1 despite the usual seasonality in our business. The debtor base is slightly up versus last year with Easter at the end of March. But as Henrik to the investment from KIRKBI and Teachers in Q3 last year but I think it is important to highlight that we continue to improve the absolute level of debt as well.

If you turn to the capital structure at slide 20, I would like to highlight here that this is pre the refinancing. Even though we announced the intention to do the refinancing in March, it was not closed until 22 April. Hence in the overview that we have here, second lien is still there as part of the overall debt but, as Jeff also said before, that particular tranche has now been refinanced with additional senior secured facilities of €330 million and US$350 million.

When you look at the refinancing that we just finalised, you will also note that this addressed 80% of our financing, so it was a significant part of our facilities that we extended. Furthermore, also being able to obtain the additional flexibilities around use of divestment proceeds, IPO flexibility and so forth has been significantly important for us. When it comes to leverage, as you can also see in the previous graph, that is more or less stable compared to year end 2012.

If we turn to slide number 21, we fully acknowledge that the refinancing is significant for us and despite the fact that it is not included in the capital structure, because that is obviously showing what the capital structure looks like at the end of March, we want to give you an overview of what is the impact on the maturity profile with the exercise that we have just done.

So, if you look to the left, this is the debt maturity profile as it was per the end of Q1 2013. You can see that there was a significant concentration in the years of 2014 and 2015. But the exercise that we just did during the refinancing is then shown on the right hand side of the picture here. The orange bar, being the second lien, is now part of the senior facilities that matures at the end of 2017 and April 2018.

profile that we have ahead of us now is quite attractive and we are happy to see that we have such a long and extended duration on the debt going forward.

Please note that during the refinancing we got consent from our lenders far in excess of what was required in order to do the extension. When it comes to the tranches, 92% were actually extended amounting to more than DKK 17 billion of our debt.

Overall, on the capital structure, we have addressed the near term maturity step we have. Bear in mind that the securitisation that you can see, still reflected in 2014, can be rolled on a yearly basis as we have done previously and we are, therefore, very happy with the outset on the financings including the flexibility that we now also have going forward.

With this summary of the refinancing exercise, I will then hand over to Jeff to give us a few words on the outlook for 2013.

JEFF GRAVENHORST: Thank you, Henrik. Thank you, Barbara. If I can have your attention on slide number 23, talking about the outlook for 2013, I think we have had a solid start to 2013 first quarter. It looked okay. Obviously the outlook is based on unchanged and a little bit of a mixed bag of global macroeconomic outlook and conditions. We still believe in the guidance that we gave in connection with the full year results. So, based on the solid start, we expect an organic growth for the year of around 3%. We also expect that the margin will be at the level of 2012, so around the 5.6% marker and the cash flow also started off pretty well for the first quarter and a little bit higher than expected. We will see that now also that we can live up to the expected above 90% cash conversion for the year. All in all, everything looks as we

OPERATOR: Thank you. We will now begin the question and answer session. If you have a question, please press zero and then one on your touch tone telephone. If you wish to be removed from the queue, please press zero, then two. If you are using a speaker phone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press zero, then one on your touch tone telephone. We have a question from Ms KATIE RUCI from JPMorgan. Please go ahead.

KATIE RUCI: Hi, guys. Thank you for the call. I have two, well three, questions actually. The first one is probably a very predictable one but on the disposal proceeds of DKK 2 billion, I just want to confirm that we are thinking on the same terms about the most expensive part of this capital structure which is the 2016 bonds. I wanted to know, provided obviously that this goes through and all of that, given the call date on June 2014 I guess, do you have any idea at this point how you are going to go about using the proceeds towards the bond or are you waiting to first get the proceeds and then a decision will be made in due time?

HENRIK ANDERSEN: Well, I think what we will always do is we will announce and we will comment on it when we do announcements on the completion on potential divestments. Until that has been completed, we have no plans for spending any money on anything. So we will just await that and then we will comment more on it.

KATIE RUCI: Well no, I am sorry. You are saying on the presentation that the plans are to use them to reduce your expensive debt. I am assuming that is the plan, right?

KATIE RUCI: Okay, thank you. Then the second one is the other eight units or businesses that you have identified as non-core as of the end of the first quarter, can you give you us a little more detail on that and do we have a valuation in terms of what is the profit generation from those businesses and where they are and what they are?

HENRIK ANDERSEN: What we have tradition for, when we have these, especially because some of the processes are minor or more material, we run those processes and some of the processes have materialised. Some others will take longer time. For having an opportunity to run that in the best possible way in both countries and with the management team, we don't disclose these activities yet. Sometimes we also see some of those activities are actually not coming through as in our divestment because timing was not right.

KATIE RUCI: Okay. But are they meaningful or not meaningful?

HENRIK ANDERSEN: I think when we conclude that something is divestment, that has been through a strategic evaluation for us. So that also means that it is a non-core to us as a business and, therefore, we will go ahead with that.

JEFF GRAVENHORST: Do you mean meaningful from a margin perspective?

JTT RUTIE: I meant are they profitable businesses but they are just not core which obviously happens or are they loss making? If you don't want to give details, I guess I get it.

profit margin business like the pest control business or it could be for the lower. But the main reason for selling it is it is a non-core activity. If it's a core activity not making money, then we'll fix it. If it's a non-core, whether it makes money or not, it doesn't matter how much proceeds comes in.

That can then have an impact on the overall margin, of course, but it is not significant for the overall results. If the pest control business goes out, it can have an impact of 0.1% or 0.2% but then of course we also have to make some restructuring on the cost side. But at the moment, we're not specifically giving targets on that.

KATIE RUCI: No, I'm not worried about -- I mean my point was I'm not really worried about a negative margin impact. To be honest with you, I'm just trying to figure out is it DKK 2 billion, is it DKK 3 billion and how much of that is going to go for …

JEFF GRAVENHORST: That is the guidance we gave last time. The guidance is it's above DKK 2 billion in proceeds.

KATIE RUCI: Okay, that's good. Thank you. The last question is just on Brazil and Latin America actually, so Brazil, Mexico and Uruguay and the margin decline. I understand that some of that is obviously because of trying to restore the run rate profitability. When do we see that materialising? Is that something you are looking forward towards at the end of this year or do you see sequential improvement or is there an internal target, margin that you are looking to restore to?

have improved the margins and we will see that impact coming through particularly in the second half of 2013.

KATIE RUCI: Okay, thank you.

JENS THOMSEN: Yes, hello, thank you. I was wondering, you mentioned France, The Netherlands, Mediterranean countries having difficulties in Europe. Could you add a little colour to that and explain the situation there?

HENRIK ANDERSEN: I think it is fair to say when we say the Mediterranean countries, part of that is of course that we see some of that is simply being that we have very little spend of variables. We see some pressure from the macroeconomic as things are going backwards and that, of course, will also put pressure on some of our Mediterranean activities in Holland and France. As we were saying in our announcement, there we are working with some of the structural issues of what we have also seen in the past. That has also resulted in that we saw new management teams in both The Netherlands and France taking their positions in 2012. So we are working forward in both countries.

JENS THOMSEN: I have an additional question if I may. You mentioned the growth coming from the big IFS contracts. At the same time, when talking about Eastern Europe and talking about North America, you are mentioning large contracts as an issue there that you have to do something about or some specific large contracts. I was just wondering how are the big IFS contracts? Are they developing well across regions or are there

HENRIK ANDERSEN: My comment was not so much related to problems of that sort but when you have areas and you have countries where they have large start-ups, we are talking about multiple sites. We are talking about sometimes in the thousands of employees that are transferring out on a specific day. On those things, I think everyone will probably appreciate that that does take an awful lot of attention. So that also means you will not have your normal profitability targets realised on those contracts from day one. So it's purely and simply a process for getting the run rate into the contracts across that.

JENS THOMSEN: So those comments were more like a timing thing rather than anything structural?

HENRIK ANDERSEN: Yes, that's what we see and that's what we're also specifically saying around these countries where we have started up large contracts, yes.

JENS THOMSEN: Yes, okay. Thank you very much.

MARTIN KJÆR HANSEN: Ladies and gentlemen, this concludes today's investor call. Thank you for participating. You may now disconnect.