Interim report for 1 January – 30 June 2023

Continued strong OneISS strategy execution with upgrade of organic growth outlook

Highlights

- Organic growth was 10.4% in Q2 2023 (Q1 2023: 11.3%) and 10.9% in H1 2023 (H1 2022: 6.7%) primarily driven by price increases implemented across the Group and underlying volume growth. In H1 2023, price increases in Turkey contributed around 3%-points, and revenue from projects and above-base work were flat.
- Operating margin before other items (excl. IAS 29) was 3.3% in H1 2023 (H1 2022: 2.9%). Non-recurring costs related to a strategic review in France negatively impacted the margin by approx. 0.2%-points. Excluding the French business which ISS intends to divest, operating margin (excl. IAS 29) was 3.6%.
- Due to inherent strategic challenges, difficult market conditions, and muted commercial development, the French business has not generated the expected financial improvements. This led to recognition of a goodwill impairment of DKK 937 million and write-down of non-monetary assets of DKK 320 million.
- In a separate company announcement, ISS today announced the intention to divest its French business, except for Global Key Account customers. As a consequence, ISS France will going forward be classified as held for sale and discontinued operations and the results will be presented in "Net profit from discontinued operations" in the statement of profit or loss.
- Free cash flow in H1 2023 amounted to DKK (1.1) billion (H1 2022: DKK 0.6 billion). As expected, free cash flow was negatively impacted by changes in working capital as the high revenue growth led to an increase in receivables.
- The strategic direction is confirmed following the appointment of Kasper Fangel as the new Group CEO from 1 September 2023. The strong focus on growth and execution of the OneISS strategy will remain unchanged, and ISS is well on track towards reaching the operating margin target of above 5% in 2024.
- The rigorous execution of the OneISS strategy continued and the commercial momentum improved, underlined by the win of a new key account IFS contract with Defra in the UK. The strengthened commercial and operating models showed visible results with improved customer engagement and the customer retention rate increased to 95% (LTM) in Q2 2023.
- In Spain, ISS has signed an acquisition of the cleaning provider, Grupo Fissa. This transaction has a strong strategic fit to the OneISS strategy, is financially accretive and adds around 1% to Group revenue.
- As announced today in a separate company announcement, outlook for organic growth is upgraded to '7 – 9%' (6 – 8%), as a result of expected higher customer activity and thereby higher underlying volume growth. Outlook for operating margin of 4.25 – 4.75% and free cash flow of around DKK 2 billion is confirmed. The outlook for organic growth and operating margin excludes any contribution from discontinued operations.

Jacob Aarup-Andersen Group CEO, ISS A/S, says:

"The strong execution of the OneISS strategy continued in the first half of 2023, and the investments we have made are showing visible results. We have won new key account contracts within our prioritised segments, customer engagement is improving, and retention is the highest in the company's more than 120-year history. This has been achieved through relentless execution and strict focus on delivering best-in-class service experiences. As we continue our journey towards a stronger, simpler and closer ISS, we today also announce a refocusing of our business in France. With this initiative, we ensure that we continue to be a strong partner for our Global Key Accounts and deliver long-term growth at sustainable margins across our business."

Financial overview	Q1 2023	Q2 2023	H1 2023	H1 2022
DKK million (unless otherwise stated)				
Revenue	19,930	19,731	39,661	36,943
Organic growth, %	11.3	10.4	10.9	6.7
Operating profit before other items			1,250	1,061
Operating profit before other items, excl. IAS 29 (hyperinflation)			1,306	1,073
Operating margin (before other items), %			3.2	2.9
Operating margin (before other items), %, excl. IAS 29 (hyperinflation)			3.3	2.9
Free cash flow			(1,074)	644

Key figures and financial ratios

Financials	H1 2023	H1 2022	2022
Results (DKKm)			
Revenue	39,661	36,943	76,538
Operating profit before other items, excl. IAS 29	1,306	1,073	2,876
Operating profit before other items	1,250	1,061	2,847
Operating profit	(36)	1,206	2,835
EBITDA before other items	1,967	1,841	4,364
EBITDA	713	2,021	4,421
Pro forma adjusted EBITDA (LTM)	4,503	4,001	4,375
Financial expenses, net	(318)	(157)	(389)
Net profit from continuing operations	(589)	797	2,005
Net profit from discontinued operations	34	122	131
Net profit	(555)	919	2,136
Net profit adjusted	713	600	1,940
Cash flow (DKKm)			
Cash flow from operating activities	(322)	1,354	3,333
Acquisition of intangible assets and property, plant and equipment, net	(355)	(369)	(779)
Free cash flow (excl. IAS 29)	(1,072)	643	1,726
Free cash flow	(1,074)	644	1,734
Financial position (DKKm)			
Total assets	45,132	46,220	47,005
Goodwill	19,205	20,465	20,450
Additions to property, plant and equipment	203	154	345
Equity	9,456	9,840	10,815
Net debt	12,971	12,199	11,540
Shares ('000)			
Number of shares issued	185,668	185,668	185,668
Number of treasury shares	335	939	938
Average number of shares (basic)	185,333	184,730	184,730
Average number of shares (diluted)	188,258	185,664	187,243

Ratios	H1 2023	H1 2022	2022
Financial ratios (%, unless otherwise stated)			
Organic growth	10.9	6.7	7.8
Acquisitions and divestments, net	0.4	(2.0)	(1.7)
Currency and other adjustment	(3.9)	1.2	1.2
Total revenue growth	7.4	5.9	7.3
Operating margin, excl. IAS 29	3.3	2.9	3.8
Operating margin	3.2	2.9	3.7
Cash conversion	(85.9)	60.7	60.9
Equity ratio	21.0	21.3	23.0
Net debt / Pro forma adjusted EBITDA	2.9x	3.0x	2.6x
Share ratios (DKK)			
Basic earnings per share (EPS)	(3.1)	4.8	11.1
Diluted EPS	(3.1)	4.8	11.0
Basic EPS (continuing operations)	(3.3)	4.1	10.4
Diluted EPS (continuing operations)	(3.3)	4.1	10.3

Non-financials	H1 2023	H1 2022	2022
Social data			
Full-time employees	77%	76%	77%
Employees end of period, number	345,303	354,341	351,053

Definitions, see Annual Report 2022.

Strategic update

The rigorous execution of the OneISS strategy continued in the first half of 2023 with strong organic growth and solid financial improvements. The progress towards reaching the operating margin target of above 5% continued and with the intention to divest the French business, ISS is even more confident in achieving the financial targets in 2024.

During the first six months of 2023, the commercial momentum improved further, underlined by the win of a new key account IFS contract with Defra, as well as wins of new medium sized contracts, leveraging the OneISS strategic investments in the commercial and operating models. In addition, ISS has extended several key account contracts, including the extension and expansion of the global IFS contract with a global consultancy company. In Q2 2023, the strategic focus on retaining existing customers yielded further results as customer retention rate improved to 95% (LTM). A customer engagement survey in Q2 2023 among key accounts in Europe, confirmed that ISS has a strong portfolio of satisfied customers, which is essential when building and expanding long-term partnerships with customers.

The global implementation of the OneISS strategy continued to successfully deliver the planned financial outcomes. However, the development in France has not generated the expected financial improvements due to inherent strategic challenges, difficult market conditions, and continued muted commercial development. Therefore, today ISS has announced the intention to divest its French business with the exception of Global Key Account customers that would become the exclusive focus going forward. The expected financial impact on profit or loss is presented under Subsequent events, page 9.

ISS has signed an agreement to acquire the shares in Grupo Fissa, a reputable cleaning provider predominately in southern Spain. With this acquisition, ISS will strengthen its operations in the region and improve the service delivery for local key accounts. The acquired company comprises cleaning contracts within healthcare and local prioritised segments and represents around 1% of Group revenue. The acquisition has a strong strategic fit with the OneISS strategy and our stated ambition to remain #1 globally in cleaning, and it is margin accretive (post synergies) within 6 months to ISS Spain, as well as to the Group. The transaction is considered a bolt-on business addition to a country with an experienced management team and strong operational and financial performance. The acquisition is expected to be completed in Q3 2023.

Operational development

As expected, the operational performance continued to improve in the first half of 2023.

OneISS efficiencies and cost initiatives, as well as operating leverage continued to drive margin improvements across the Group. The enhanced operating model combined with the scaled and improved service products and technology applications yielded improvements in line with plans.

Performance improvements in the previously underperforming areas continued to progress in H1 2023, driven by underlying improvements on the Deutsche Telekom contract and in the UK. On the Deutsche Telekom contract operational performance continued to improve through strict focus on operational efficiencies. The contract continues to be structurally challenging, and as previously informed, certain contractual disagreements between ISS and Deutsche Telekom are subject to arbitration proceedings initiated by ISS. The proceedings, in which the parties have exchanged claims against each other, follow the rules of the DIS arbitration institute in Germany. The outcome and timeframe of the proceedings are uncertain.

Appointment of new Group CEO

On 29 June 2023, ISS announced the appointment of Kasper Fangel as the new Group CEO, effective 1 September 2023, following a rigorous internal and external search process. This appointment comes after the resignation of Jacob Aarup-Andersen in March 2023, and it marks an important milestone in ISS's continued growth and strategic execution of the OneISS strategy.

ISS has initiated a search process for the new Group CFO, which will include both internal and external candidates. The appointment of a new Group CFO will be made in due course.

Group Performance

Operating results

Group revenue in the first six months of 2023 was DKK 39.7 billion, an increase of 7.4% compared with the same period last year. Organic growth in H1 2023 was 10.9% as the strong growth momentum continued in Q2, despite a tougher comparison. The impact from acquisitions and divestments, net was 0.4%, and currency effects decreased revenue by 2.1%, while the net impact from hyperinflation restatement in Turkey (IAS 29) was negative 1.8%.

Organic growth was 10.9% in the first six months of 2023 driven by underlying volume growth mainly due to price increases implemented across the Group and increased activity levels in the customer portfolio.

Across the Group, price increases have been successfully implemented, in line with contractual agreements, to mitigate the impact of cost inflation. This impacted organic growth positively by around 6%-points, of which around 3%-points were related to Turkey.

The underlying volume growth contributed around 4%-points to organic growth driven by continued higher activity level and increased office occupancy rates. This particularly impacted food services positively, which grew by more than 25% mainly driven by more than 35% organic growth in the US, where food services are predominately office-based. Food services accounted for 15% (H1 2022: 13%) of Group revenue in the first half.

In H1 2023, the organic growth contribution from net new contract wins was slightly positive with around 0.5%-points, as the positive effect from contracts won during the last quarters was only partly offset by the exit of the Danish Defence contract.

Revenue from projects and above-base services remained at a high level and was flat for the first six months of 2023. The lower demand for Covid-19 related services, especially in the Asia & Pacific region, was offset by increased revenue from traditional above-base services and project work.

All regions contributed to the positive development in H1 2023. In Americas, the organic growth was 20% due to relatively higher exposure to food services and start-up of new contracts. Growth rates in all other regions were solid, with Central & Southern Europe being positively impacted by price increases, underlying volume growth and net contract wins in Turkey.

Operating profit before other items was DKK 1,250 million (H1 2022: DKK 1,061 million) and operating margin was 3.2% (H1 2022: 2.9%). Excluding the effect from IAS 29 (Turkey hyperinflation) operating profit before other items amounted to DKK 1,306 million (H1 2022: DKK 1,073 million) corresponding to an operating margin of 3.3% (H1 2022: 2.9%).

The increase in operating margin in the first half of 2023 was a result of the continued underlying improvement on the Deutsche Telekom contract and in the UK, as well as OneISS efficiencies and cost initiatives across countries and supported by operating leverage from higher revenue.

The operational development in France continued to be challenging and the operating margin did not develop as expected due to challenging market

Revenue and growth

DKK million	YTD 2023	YTD 2022	Organic growth	Acq./ div.	Currency & other adj.	Revenue Growth
Northern Europe	14,428	14,214	6%	(0)%	(4)%	2%
Central & Southern Europe	13,144	11,871	16%	2%	(7)%	11%
Central & Southern Europe, excl IAS 29	*13,594*	*11,743*	*16%*	*2%*	*(2)%*	*16%*
Asia & Pacific	7,037	6,735	7%	(0)%	(3)%	4%
Americas	4,773	3,873	20%	-	3%	23%
Other countries	303	275	14%	-	(4)%	10%
Corporate / eliminations	(24)	(25)	-	-	-	-
Group [1]	39,661	36,943	10.9%	0.4%	(3.9)%	7.4%

[1] The net impact from hyperinflation restatement in Turkey (IAS 29) was negative with 1.8% on Group-level, that has been included in Currency & other adj.

conditions and continued muted commercial development. Non-recurring costs related to a strategic review in France reduced Group operating margin by approx. 0.2%-points.

From a regional perspective, the margin improvements were broad-based with significant improvement in Central & Southern Europe fuelled by improved profitability on the Deutsche Telekom contract, OneISS efficiencies and operating leverage across the region. Both in the Asia & Pacific and the Americas regions operating margin increased through solid operational execution and operating leverage. The margin in Northern Europe declined slightly due to lower contribution from margin enhancing above-base services. Price increases and operational efficiencies implemented across the Group kept the margin generally unaffected from cost inflation.

Adjusted for the estimated impact of subsequently classifying France as held for sale and discontinued operations as per separate company announcement today, operating margin excl. IAS 29 for the first six months of 2023 was 3.6%.

Corporate costs amounted to DKK 472 million (H1 2022: DKK 472 million) corresponding to 1.2% of Group revenue (H1 2022: 1.3%). As such, corporate costs remained flat, despite the higher revenue, reflecting the strengthened operating model implemented under the OneISS strategy.

Other income and expenses, net was an expense of DKK 317 million (H1 2022: income of 180 million), primarily as a result of an impairment loss of DKK 320 million on non-monetary assets in France identified in the impairment test performed as of 30 June 2023, see Goodwill impairment below.

Goodwill impairment was DKK 937 million related to France. During the first six months of 2023, it has become clear that the necessary profitability improvements cannot be achieved on a stand-alone basis without further restructurings and significantly higher investments than previously anticipated. As a result, management reassessed the assumptions for growth and operating margin, which led to the recognition of an impairment loss as of 30 June 2023, see note 7, Impairment tests, page 26.

Financial expenses, net was DKK 318 million (H1 2022: DKK 157 million) including a monetary gain of DKK 40 million relating to hyperinflation restatement in Turkey (IAS 29). Excluding the impact from IAS 29, financial expenses, net was DKK 373 million (H1 2022: DKK 258 million). The increase was mainly due to foreign exchange losses on intercompany loans denominated in TRY and EUR. Further, the rising interest rates and higher utilisation of banking facilities had a negative effect.

The effective tax rate in H1 2023 was (65.9)% (H1 2022: 24.0%) and (66.2)% when adjusted for the impact of IAS 29. The effective tax rate is negatively impacted by non tax-deductible impairment in France. Adjusted for the French impairment, the effective tax rate in H1 was 24.4%.

Net profit from discontinued operations was DKK 34 million (H1 2022: DKK 122 million) in the first six months of 2023, including DKK 32 million of gain on divestments primarily related to Brunei.

Net profit was DKK (555) million (H1 2022: DKK 919 million). The decline compared to the same period last year was mainly due to impairment of goodwill and non-monetary assets in France of DKK 1,257 million, divestments from continuing and discontinued operations in H1 2022, and increased financial expenses, net.

Operating profit before other items

DKK million	YTD 2023		YTD 2022	
Northern Europe	626	4.3%	631	4.4%
Central & Southern Europe	482	3.7%	366	3.1%
Central & Southern Europe, excl IAS 29	*538*	*4.0%*	*378*	*3.2%*
Asia & Pacific	414	5.9%	388	5.8%
Americas	189	4.0%	137	3.5%
Other countries	11	3.6%	11	4.0%
Corporate / eliminations	(472)	-	(472)	-
Total	1,250	3.2 %	1,061	2.9%

Q2 2023

Group revenue in Q2 2023 was DKK 19.7 billion, an increase of 4.6% compared with the same period last year. Organic growth was 10.4% (Q2 2022: 8.0%), acquisitions and divestments, net increased revenue by 0.4% and currency effects were negative 2.8%, while the net impact from hyperinflation restatement in Turkey (IAS 29) was negative with 3.4%.

Organic growth decreased only slightly from the level reported in Q1 2023 of 11.3%. The organic growth was driven by price increases implemented across the Group which contributed around 6%-points, of which 3%-points were from Turkey. Further, increased activity level among customers drove underlying volume growth with around 3%-points growth contribution. Activity levels in the customer portfolio and office occupancy rates improved further in the second quarter, but the growth contribution was, as expected, lower than in previous quarters due to a higher comparison base. This impacted food services positively, which showed growth rates of more than 20%. Portfolio revenue continued the strong development and grew organically by 12.2%.

In the second quarter, the contribution from net new contract wins was slightly positive with around 0.5%-points, as the positive effect from contracts won during the last quarters more than offset the exit of the Danish Defence contract in 2022.

Revenue from projects and above-base work grew organically by 2% and thereby contributed with around 0.5%-points to organic growth. Traditional projects and above-base work more than offset the decline in Covid-19 related services.

All regions reported positive organic growth and continued the strong development from previous quarters. Growth was most significant in Americas and Central & Southern Europe with organic growth of 18% and 15% respectively. Price increases, higher activity levels in the customer portfolio and start-up of new contracts drove the development in Americas, while Central & Southern Europe benefitted in particular from price increases, as well as underlying volume growth and net contract wins in Turkey. Northern Europe and Asia & Pacific reported solid organic growth.

Revenue and growth

DKK million	Q2 2023	Q2 2022	Organic growth	Acq./ div.	Currency & other adj.	Revenue Growth
Northern Europe	7,278	7,176	5%	(0)%	(4)%	1%
Central & Southern Europe	6,323	6,057	15%	1%	(12)%	4%
Central & Southern Europe, excl IAS 29	*6,794*	*5,928*	*15%*	*1%*	*(1)%*	*15%*
Asia & Pacific	3,548	3,456	8%	(0)%	(5)%	3%
Americas	2,438	2,058	18%	-	0%	18%
Other countries	158	135	23%	-	(5)%	18%
Corporate / eliminations	(14)	(14)	-	-	-	-
Group [1]	19,731	18,868	10.4%	0.4 %	(6.2)%	4.6%

[1] The net impact from hyperinflation restatement in Turkey (IAS 29) was negative with 3.4% on Group-level, that has been included in Currency & other adj.

Commercial development

In the first half of 2023, the commercial momentum improved further as ISS benefitted from higher activity level among customers.

The commercial pipeline for integrated facility services solutions within prioritised segments continues to be attractive. The investments in the commercial and operating models are yielding results, underlined by the win of a new key account IFS contract with Defra, as well as wins of new medium sized contracts. The decision process in the global tenders continues to be longer than pre Covid-19, as the importance of the workplace has increased, and it has become an increasingly strategic decision for customers. ISS maintains strong pricing discipline in the commercial process.

ISS has successfully extended and expanded several contracts including the global IFS contract with a global consultancy company, a pharmaceutical customer and several local key account customers. As a result, the customer retention rate improved further in Q2 to a new historical level of around 95% (LTM) in line with the mid-term ambition. In general, the majority of contracts up for renewal are extended for 2-5 years. Further, a customer engagement survey in Q2 2023 among key accounts in Europe confirmed that ISS has a strong portfolio of satisfied customers, which is essential when building and expanding long-term partnerships.

The demand for projects and above-base work continued at a high level and grew organically by 2% in Q2 2023. The trends from previous quarters thereby continued with traditional projects and above-base work offsetting Covid-19 related services. Revenue from projects and above-base work accounted for 16% of Group revenue.

Revenue from key account customers continued its solid development and organic growth was 10%, driven by increased activity level, investments in the workplaces and price increases. Key accounts' share of Group revenue was 70%.

Major key account developments [1]	Countries	Segment	Term	Effective
Wins				
Healthcare Customer	Turkey	Healthcare	5 years	Q1 2023
Pharmeceutical Customer	US & Netherland	Pharmaceuticals	5 years	Q2 2023
Department for Environment Food and Rural Affairs (Defra)	United Kingdom	Public Administration	7 years	Q2 2024
Extensions/expansions				
Healthcare Customer	Global	Healthcare	5 years	Q1 2023
Mining Service Customer	Australia	Energy & Resources	4 years	Q1 2023
Information and Communication Customer	United Kingdom	Information and communication	4 years	Q3 2023
Healthcare Customer	United Kingdom	Healthcare	3 years	Q4 2022
Banking Customer	United Kingdom	Business Services & IT	3 years	Q1 2023
Pharmaceutical Customer	Swtizerland & Austria	Pharmaceuticals	5 years	Q1 2023
Deutsche Bank	Italy	Business Services & IT	3 years	Q1 2024
Hospital Authority	Hong Kong	Healthcare	3 years	Q3 2023
Banking Customer	Nordics	Business Services & IT	1 year	Q4 2023
Exits/losses				
Healthcare Customer	United Kingdom	Healthcare		Q2 2023
Manufacturing Customer	US	Industry & Manufacturing		Q3 2023

[1] Annual revenue above DKK 100 million.

Free cash flow

Free cash flow in H1 2023 was DKK (1,074) million (H1 2022: DKK 644 million), a reduction of DKK 1,718 million compared to the same period last year. Free cash flow in H1 2023 was, as expected, negatively impacted by changes in working capital as the high growth tied funds in receivables. This was partly offset by improved operating profit before other items.

Cash flow from operating activities in H1 2023 amounted to DKK (322) million (H1 2022: DKK 1,354 million), a decrease of DKK 1,676 million due to negative contribution from changes in working capital partly offset by improved operating profit before other items.

Changes in working capital in H1 2023 was DKK (1,620) million (H1 2022: DKK 283 million) mainly due to an increase in receivables of DKK 1,778 million following the high growth and reversal of customer prepayments of DKK 200 million received end of 2022, partly offset by a slight increase in payables. Utilisation of factoring increased slightly to DKK 1.4 billion on 30 June 2023 compared to DKK 1.3 billion on 31 December 2022. The development was in line with higher revenue from key account customers, where invoices are eligible for factoring, as per the factoring policy.

Cash flow from investing activities in H1 2023 amounted to DKK (277) million (H1 2022: DKK 196 million), a reduction of DKK 473 million, primarily due to lower cash inflow from divestments compared to the same period last year.

Divestment of businesses amounted to DKK 59 million (H1 2022: DKK 599 million), driven by the divestment of Brunei and non-core business units in Singapore. Investments in intangible assets and property, plant and equipment, net, was DKK 364 million (H1 2022: DKK 390 million), which represented 0.9% of Group revenue (H1 2022: 1.1%) and reflected continued strict investment discipline.

Cash flow from financing activities in H1 2023 amounted to DKK (688) million (H1 2022: DKK (568) million), a decrease of DKK 120 million, primarily related to dividends paid to shareholders.

Capital structure

In line with ISS's capital allocation policy, a key objective is to maintain an investment grade rating as it is important from both a financial and commercial perspective. To adhere to the investment grade rating, ISS targets a net debt to pro-forma adjusted EBITDA (LTM) of 2.0x-2.5x.

As of 30 June 2023, net debt was DKK 13.0 billion, an increase of DKK 1.5 billion compared to 31 December 2022. The increase was driven by negative free cash flow in H1 2023, and dividends paid to shareholders. Despite EBITDA growth, the higher net debt resulted in an increase in financial leverage to 2.9x as of 30 June 2023 based on pro forma EBITDA (LTM) compared to 2.6x at year-end 2022.

Equity

As of 30 June 2023, equity was DKK 9,456 million, equivalent to an equity ratio of 21.0% (31 December 2022: 23.0%). The decline from year-end 2022 was mainly a result of Net profit of DKK (555) million, currency adjustments relating to investments in foreign subsidiaries of DKK (439) million, actuarial losses, net of DKK (82) million and dividends paid to shareholders of DKK 390 million. This was partially offset by hyperinflation (IAS 29) restatement of equity in Turkey as of 1 January 2023 of DKK 164 million.

Management changes

On 16 March 2023, Group CEO Jacob Aarup-Andersen submitted his resignation to the Board of Directors. Jacob Aarup-Andersen will stay with ISS until 31 August 2023.

On 13 April 2023 at the Annual General Meeting, Gloria Diana Glang and Reshma Ramachandran were elected as new members of the Board of Directors. Cynthia Mary Trudell did not seek re-election.

On 29 June 2023, ISS announced the appointment of Kasper Fangel as the new Group CEO, effective 1 September 2023.

Subsequent events

Acquisitions

On 11 July 2023, ISS signed an agreement to acquire 100% of the shares in Grupo Fissa in Spain. Closing is expected in Q3 2023.

The acquisition will strengthen our market position in Spain and enable ISS to expand and develop its cleaning service offering to public sector customers, predominantly in Southern Spain.

The acquisition will add annual revenue of DKK 721 million, representing around 1% of Group revenue (estimated based on unaudited financial information), and more than 4,500 employees.

Intention to divest the French business with the exception of Global Key Account customers

Today, ISS announced its intention to divest its French business with the exception of Global Key Account customers that would become the exclusive focus going forward.

Historically, financial results in France have not been satisfactory and have been dilutive to Group operating margins and growth. Furthermore, the development in France has not generated the expected financial improvements due to inherent strategic challenges, difficult market conditions, and continued muted commercial development. During the past several years, ISS has worked towards restructuring the business and establishing a solid foundation in the French market. However, building a long-term, sustainable business with a strengthened market position in France will require further significant investments and management attention. ISS therefore intends to strategically reposition itself in the French market to focus on servicing its Global Key Account customers and intends to divest its other activities.

As a consequence, as of today, ISS France, excluding Global Key Accounts, will be classified as held for sale and discontinued operations in accordance with IFRS. Consequently, for 2023 the results of ISS France will be presented in “Net profit from discontinued operations” in the statement of profit or loss, and comparative figures for 2022 will be restated accordingly. In the statement of financial position, assets and liabilities of ISS France will be reclassified to a single asset and liability line, respectively, with no restatement of comparative figures. The statement of cash flows will be unchanged.

Classification as held for sale as of today did not result in impairment losses in addition to the total impairment losses of DKK 1,257 million recognised - in the Group’s statement of profit or loss as per 30 June 2023.

Expected impact on selected reported numbers

The expected impact on profit or loss of reclassification of ISS France, excluding Global Key Accounts, to discontinued operations is summarised below. As a result of the reclassification, operating margin (before other items), excl. IAS 29, is expected to improve 0.3%-points to 3.6% for the first six months of 2023.

Other than as set out above or elsewhere in this Interim report, we are not aware of events subsequent to 30 June 2023, which are expected to have a material impact on the Group’s financial position.

Expected impact on profit or loss of reclassification

(DKKm)	YTD 2023 (reported)	ISS France (estimated effect of reclass.)	YTD 2023 (adjusted)	YTD 2022 (reported)	ISS France (estimated effect of reclass.)	YTD 2022 (adjusted)
Revenue	39,661	(1,331)	38,330	36,943	(1,370)	35,573
Expenses	(38,411)	1,422	(36,989)	(35,882)	1,409	(34,473)
Operating profit before other items	**1,250**	**91**	**1,341**	**1,061**	**39**	**1,100**
Other income and expenses, net	(317)	321	4	180	-	180
Goodwill impairment	(937)	937	-	-	-	-
Amortisation/impairment of brands and customer contracts	(32)	-	(32)	(35)	-	(35)
Operating profit	**(36)**	**1,349**	**1,313**	**1,206**	**39**	**1,245**
Financial expenses, net	(318)	6	(312)	(157)	2	(155)
Profit before tax	**(354)**	**1,355**	**1,001**	**1,049**	**41**	**1,090**
Income taxes	(235)	25	(210)	(252)	7	(245)
Profit from continuing operations	**(589)**	**1,380**	**791**	**797**	**48**	**845**
Profit from discontinued operations	34	(1,380)	(1,346)	122	(48)	74
Net profit	**(555)**	**-**	**(555)**	**919**	**-**	**919**
Organic growth, %	10.9%		11.4%	6.7%		7.3%
Operating margin (before other items), %	3.2%		3.5%	2.9%		3.1%
Operating margin (before other items), %, excl. IAS 29	3.3%		3.6%	2.9%		3.1%

Regional Performance

Northern Europe

Revenue amounted to DKK 14,428 million in the first six months of 2023, which was an increase of 2% compared with the same period last year. Organic growth was 6% (H1 2022: 5%). The effect from acquisitions and divestments, net was neutral, while currency effects impacted growth negatively by 4%.

Organic growth was mainly driven by underlying volume growth from increased activity level and price increases. Portfolio revenue grew by around 7%, while revenue from projects and above-base work declined slightly. Revenue from food services continued the positive development and contributed positively to the organic growth. Sweden and Benelux reported the strongest growth due to increased activity level among key account customers and implemented price increases. Organic growth in Denmark was negative due to the deliberate exit of the contract with the Danish Defence in May 2022. The UK reported positive organic growth due to price increases, underlying volume growth and start-up of new contracts resulting in portfolio revenue growth, partly offset by decline in revenue from projects and above-base work.

Operating profit before other items amounted to DKK 626 million in H1 2023 (H1 2022: DKK 631 million) corresponding to an operating margin of 4.3% (H1 2022: 4.4%). Underlying improvements were achieved across the region, driven by continued positive operational development in the UK, OneISS efficiencies and cost initiatives and operating leverage. This was, however offset by a lower contribution of margin enhancing projects and above-base work and reduced overhead costs absorption from lower revenue in Denmark.

Q2 2023 revenue amounted to DKK 7,278 million driven by organic growth of 5% (Q1 2023: 6%), while acquisitions and divestments, net, were neutral and currency effects reduced revenue by 4%. Organic growth was driven by underlying volume growth and price increases implemented across the region. Portfolio revenue grew organically by 6%, while revenue from projects and above-base work was flat. Several countries reported double-digit organic growth with the strongest growth seen in Sweden and Benelux. The UK reported positive organic growth driven by portfolio revenue, while organic growth in Denmark was negative, as the contract with the Danish Defence was exited by the end of May 2022.

Central & Southern Europe

Revenue amounted to DKK 13,144 million in the first six months of 2023, which was an increase of 11% compared with the same period last year. Organic growth was 16% (H1 2022: 5%) and the effect from acquisitions and divestments, net increased revenue of 2% related to the acquisition of Livit FM in Switzerland. Currency effects impacted growth negatively by 2%, while the net impact from hyperinflation restatement in Turkey (IAS 29) was negative with 5%.

The organic growth was primarily driven by Turkey where price increases were successfully passed on to customers to offset cost inflation, as well as underlying volume growth and net contract wins in the healthcare segment. Portfolio revenue in the region grew double digit driven by price increases and underlying volume growth due to the increased activity level. In France, however, organic growth was negative.

Operating profit before other items excluding IAS 29 amounted to DKK 538 million in H1 2023 (H1 2022: DKK 378 million) corresponding to an operating margin of 4.0% (H1 2022: 3.2%). The positive margin development was primarily due to the continued improved profitability on the Deutsche Telekom contract. In addition, across the region, countries improved margin as a result of OneISS efficiencies and cost initiatives and operating leverage from higher revenue. This was, however, partly offset by France where the development continued to be challenging and the margin did not develop as expected. Including the effect of IAS 29, operating profit before other items amounted to DKK 482 million, corresponding to a margin of 3.7% (H1 2022: 3.1%).

Q2 2023 revenue amounted to DKK 6,323 million driven by organic growth of 15% (Q1 2023: 17%), and acquisitions and divestments, net which increased revenue by 1%. Currency effects reduced revenue with 2%, while the net impact from hyperinflation restatement in Turkey (IAS 29) was negative with 10%. Organic growth was predominately driven by implemented price increases, underlying volume growth and net new contract wins in Turkey. Organic growth for portfolio revenue was double digit, driven by price increases and underlying volume growth across the region.

Asia & Pacific

Revenue amounted to DKK 7,037 million in the first six months of 2023, which was an increase of 4% compared to the same period last year. Organic growth was 7% (H1 2022: 3%). The effect from acquisitions and divestments, net was neutral, while currency effects impacted revenue negatively by 3%.

Organic growth was driven by underlying volume growth from increased activity level and price increases implemented across the region resulting in double digit organic growth in portfolio revenue. Price increases, however, contributed less to growth compared to other regions due lower cost inflation. The strongest growth was seen in India and Australia driven by generally increased customer activity level. Revenue from projects and above-base work declined organically by double digits due to reduced demand for Covid-19 related services in Hong Kong and China as restrictions were lifted in January 2023.

Operating profit before other items amounted to DKK 414 million in H1 2023 (H1 2022: DKK 388 million) corresponding to an operating margin of 5.9% (H1 2022: 5.8%). The development reflected solid OneISS efficiency execution and cost discipline despite lower demand for margin enhancing Covid-19 related services.

Q2 2023 revenue amounted to DKK 3,548 million driven by organic growth of 8% (Q1 2023: 6%), while acquisitions and divestments, net were neutral and currency effects reduced revenue by 5%. Organic growth was driven by underlying volume growth across the region supported by start-up of contracts in Indonesia. Projects and above-base revenue declined due to reduced demand for Covid-19 related services.

Americas

Revenue amounted to DKK 4,773 million in the first six months of 2023, which was an increase of 23% compared to the same period last year. Organic growth was 20% (H1 2022: 29%). The effect from acquisitions and divestments, net was neutral, while currency effects impacted revenue positively by 3%.

The strong organic growth in the Americas continued, despite a tougher comparison base. Growth was driven by underlying volume growth, price increases and net new contract wins. The underlying volume growth was a result of increased activity level and higher office occupancy rates. This particularly benefitted food services, which reported growth of more than 30%. Further, the contract with a global retailer had full revenue impact in the first six months of 2023 contributing positively to organic growth. Price increases were implemented to offset cost inflation across the region and thereby had a positive contribution to organic growth. All countries in the region reported double digit organic growth, with the highest growth rates seen in the US and Mexico.

Operating profit before other items amounted to DKK 189 million in H1 2023 (H1 2021: DKK 137 million) corresponding to an operating margin of 4.0% (H1 2022: 3.5%). The positive development was a result of OneISS efficiencies and cost initiatives, as well as operating leverage from increased revenue across the region. The continued strong organic growth within food service delivered an unchanged margin compared to last year, as contracts are on cost plus commercial models.

Q2 2023 revenue amounted to DKK 2,438 million driven by organic growth of 18% (Q1 2023: 22%), while acquisitions and divestments, net and currencies effects were neutral. Organic growth was driven by underlying volume growth particularly affecting food services positively and price increases. Net new contract wins had a positive contribution to organic growth mainly as the contract with the global retailer mobilised during H2 2022 and had full revenue effect in the quarter.

Outlook

Outlook 2023

This section should be read in conjunction with "Forward-looking statements" as shown in the table on page 14.

In the first half of 2023, the organic growth was strong mainly driven by price increases being implemented across the Group and underlying volume growth due to increased activity levels. Operating margin developed largely according to plan, while the strong organic growth, as expected, temporarily had a negative effect on free cash flow.

The outlook for 2023 assumes continued high macroeconomic and geopolitical uncertainty. ISS has robust operating processes and is well positioned to operate in this environment. The execution of the OneISS strategy will continue and enhance the operating model, strengthen competitiveness, and increase focus on growth initiatives. France, excluding Global Key Accounts, will be classified as held for sale and discontinued operations. The outlook for organic growth and operating margin excludes any contribution from discontinued operations. For all financial KPIs, the outlook is excluding any effects of hyperinflation (IAS 29).

Organic growth is now expected to be 7 – 9% compared to previously "6 - 8%" (2022 excl. France: 8.4%), as a result of expected higher customer activity and thereby higher underlying volume growth. The annualisation of the return-to-office trend, contract expansions and continued customer investments in workplaces and services are expected to drive volume growth. The expectation of a positive effect from price increases implemented across the business is unchanged as well as a slight positive contribution from net contract wins. Revenue from projects and above-base work is still expected to have a slight negative impact on organic growth.

Operating margin is still expected to be 4.25 – 4.75% (2022 excl. France: 4.0%). The year-on-year increase is still expected to be mainly driven by continued improvement on the two previous hotspots; the UK and the Deutsche Telekom contract, positive impacts from OneISS efficiencies and cost initiatives, as well as operating leverage from higher revenue.

Free cash flow is still expected to be around DKK 2.0 billion (2022: DKK 1.7 billion). The increase from 2022 will be driven by the expected higher operating profit before other items and the absence of payments related to restructuring projects initiated in 2020. Changes in working capital are expected to be negative because of revenue growth and customer prepayments made in 2022, while capital expenditures are expected in line with depreciation and amortisation.

As a consequence of the high organic growth in H1 2023, receivables increased accordingly. As expected, changes in working capital and free cash flow were therefore negative in the first half of the year. As growth rates are expected to normalise in H2 2023, this effect will reverse, and the outlook for the full year is confirmed.

Outlook 2023	Annual Report 2022	Trading update Q1 2023	Interim report H1 2023
Organic growth	4 - 6%	6 - 8%	7 - 9%
Operating margin*	4.25 - 4.75%	4.25 - 4.75%	4.25 - 4.75%
Free cash flow	~ DKK 2bn	~ DKK 2bn	~ DKK 2bn

* Based on operating profit before other items

Financial targets

At the Capital Markets Day in November 2022, new financial targets were announced for organic growth, operating margin and cash conversion. From 2024 and beyond, ISS targets to deliver strong growth at attractive and sustainable margins:

- Organic growth of 4 – 6%
- Operating margin above 5%
- Cash conversion above 60%

Expected revenue impact from divestments, acquisitions and foreign exchange rates in 2023

Acquisitions and divestments completed by 31 July 2023 (including in 2022) are expected to have a positive impact on revenue growth in 2023 of around 0.5%-point.

Based on the current exchange rates, a negative impact on revenue growth of 3-4%-points[1)] is expected in 2023 from the development of foreign exchange rates, excluding any effects of hyperinflation (IAS 29).

[1)] The forecasted average exchange rates for the financial year 2023 are calculated using the realised average exchange rates for the first seven month of 2023 and the average forward exchange rates (as of 1 August 2023) for the remaining five months of 2023.

Forward-looking statements

This report contains forward-looking statements, including, but not limited to, the guidance and expectations in Outlook. Statements herein, other than statements of historical fact, regarding future event 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, expect to the extent required by law.

The Annual Report of 2022 of ISS A/S is available at the Group's website, www.issworld.com.

Management statement

Copenhagen, 9 August 2023
The Board of Directors and the Executive Group Management Board have today discussed and approved the interim report of ISS A/S for the period 1 January – 30 June 2023.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional requirements of the Danish Financial Statements Act. The interim report has not been reviewed or audited.

In our opinion, the condensed consolidated interim financial statements give a true and fair view of the Group's assets, liabilities and financial position at 30 June 2023 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 June 2023.

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

Executive Group Management Board

Jacob Aarup-Andersen
Group CEO

Kasper Fangel
Group CFO

Board of Directors

Niels Smedegaard
Chair

Lars Petersson
Deputy Chair

Kelly Kuhn

Ben Stevens

Søren Thorup Sørensen

Gloria Diana Glang

Reshma Ramachandran

Nada Elboayadi (E)

Signe Adamsen (E)

Kadir Ünver (E)

E = Employee representative

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Statement of profit or loss

1 January – 30 June

(DKKm)	Note	YTD 2023	YTD 2022
Revenue	3, 4, 14	39,661	36,943
Employee costs	5	(25,622)	(23,890)
Consumables		(3,575)	(3,008)
Other operating expenses		(8,497)	(8,204)
Depreciation and amortisation		(717)	(780)
Operating profit before other items	14	1,250	1,061
Other income and expenses, net	6	(317)	180
Goodwill impairment	7	(937)	-
Amortisation/impairment of brands and customer contracts		(32)	(35)
Operating profit	3, 14	(36)	1,206
Financial income	8	80	135
Financial expenses	8	(398)	(292)
Profit before tax		(354)	1,049
Income tax		(235)	(252)
Net profit from continuing operations		(589)	797
Net profit from discontinued operations	9	34	122
Net profit	14	(555)	919
Attributable to:			
Owners of ISS A/S		(582)	883
Non-controlling interests		27	36
Net profit		(555)	919
Earnings per share, DKK			
Basic earnings per share (EPS)		(3.1)	4.8
Diluted earnings per share		(3.1)	4.8
Earnings per share for continuing operations, DKK			
Basic earnings per share (EPS)		(3.3)	4.1
Diluted earnings per share		(3.3)	4.1

Statement of comprehensive income

1 January – 30 June

(DKKm)	Note	YTD 2023	YTD 2022
Net profit		(555)	919
Items that will not be reclassified to profit or loss:			
Remeasurement gain/(loss), defined benefit plans	12	(86)	365
Asset ceiling, defined benefit plans	12	(18)	(210)
Tax		22	(40)
Items that may be reclassified to profit or loss:			
Foreign exchange adjustments of foreign entities		(439)	252
Fair value adjustments of net investment hedges		(22)	(84)
Recycling of accumulated foreign exchange adjustments on country exits		(18)	(33)
Hyperinflation restatement of equity at 1 January	14	164	768
Tax		5	18
Other comprehensive income		(392)	1,036
Comprehensive income		(947)	1,955
Attributable to:			
Owners of ISS A/S		(867)	1,563
Non-controlling interests		(80)	392
Comprehensive income		(947)	1,955

Statement of cash flows

1 January – 30 June

(DKKm)	Note	YTD 2023	YTD 2022
Operating profit before other items		1,250	1,061
Operating profit before other items from discontinued operations	9	1	11
Depreciation and amortisation		717	780
Non-cash items related to hyperinflation	14	(12)	(21)
Share-based payments	5	35	44
Changes in working capital	10	(1,620)	283
Changes in provisions, pensions and similar obligations		(251)	(436)
Other expenses paid		(9)	(3)
Interest received		40	35
Interest paid		(204)	(167)
Income tax paid		(269)	(233)
Cash flow from operating activities	14	(322)	1,354
Acquisition of businesses		-	(24)
Divestment of businesses	9	59	599
Acquisition of intangible assets and property, plant and equipment		(364)	(390)
Disposal of intangible assets and property, plant and equipment		9	21
Acquisition of financial assets, net		19	(10)
Cash flow from investing activities	14	(277)	196
Repayment of lease liabilities		(423)	(434)
Other financial payments, net		125	(128)
Transactions with non-controlling interest		-	(6)
Dividends paid to shareholders		(390)	-
Cash flow from financing activities	14	(688)	(568)
Total cash flow		(1,287)	982
Cash and cash equivalents at 1 January		5,214	3,428
Total cash flow		(1,287)	982
Foreign exchange adjustments		(227)	96
Cash and cash equivalents at 30 June		3,700	4,506
Free cash flow	11, 14	(1,074)	644

Statement of financial position

(DKKm)	Note	30 June 2023	30 June 2022	31 December 2022
Assets				
Intangible assets	14	22,558	23,696	23,920
Right-of-use assets	14	2,115	2,334	2,403
Property, plant and equipment	14	890	923	917
Deferred tax assets		895	936	912
Other financial assets		412	508	512
Non-current assets		26,870	28,397	28,664
Inventories		244	200	231
Trade receivables		12,142	11,068	10,996
Tax receivables		161	142	173
Other receivables		2,015	1,875	1,695
Cash and cash equivalents		3,700	4,506	5,214
Assets held for sale	9	-	32	32
Current assets		18,262	17,823	18,341
Total assets		45,132	46,220	47,005
Equity and liabilities				
Equity attributable to owners of ISS A/S		8,934	9,185	10,156
Non-controlling interests		522	655	659
Total equity	14	9,456	9,840	10,815
Loans and borrowings		15,885	15,959	15,945
Pensions and similar obligations	12	1,203	1,214	1,185
Deferred tax liabilities	14	1,145	1,150	1,178
Provisions	13	471	591	465
Non-current liabilities		18,704	18,914	18,773
Loans and borrowings		907	853	963
Trade and other payables		6,711	6,827	6,952
Tax payables		102	133	172
Other liabilities		8,812	8,941	8,714
Provisions	13	440	700	606
Liabilities held for sale	9	-	12	10
Current liabilities		16,972	17,466	17,417
Total liabilities		35,676	36,380	36,190
Total equity and liabilities		45,132	46,220	47,005

Statement of changes in equity

1 January – 30 June

(DKKm)	Note	Share capital	Treasury shares	Retained earnings	Proposed dividends	Translation reserve	Total	Non-controlling interests	Total equity
		Attributable to owners of ISS A/S							
2023									
Equity at 1 January		185	(185)	10,920	390	(1,154)	10,156	659	10,815
Net profit		-	-	(582)	-	-	(582)	27	(555)
Other comprehensive income		-	-	(2)	-	(283)	(285)	(107)	(392)
Comprehensive income		-	-	(584)	-	(283)	(867)	(80)	(947)
Dividends paid to shareholders		-	-	-	(390)	-	(390)	-	(390)
Share-based payments	5	-	-	35	-	-	35	-	35
Settlement of vested PSUs		-	119	(119)	-	-	-	-	-
Transactions with non-controlling interests		-	-	-	-	-	-	(57)	(57)
Transactions with owners		-	119	(84)	(390)	-	(355)	(57)	(412)
Changes in equity		-	119	(668)	(390)	(283)	(1,222)	(137)	(1,359)
Equity at 30 June		185	(66)	10,252	-	(1,437)	8,934	522	9,456
2022									
Equity at 1 January		185	(191)	9,035	-	(1,446)	7,583	206	7,789
Net profit		-	-	883	-	-	883	36	919
Other comprehensive income		-	-	115	-	565	680	356	1,036
Comprehensive income		-	-	998	-	565	1,563	392	1,955
Share-based payments		-	-	44	-	-	44	-	44
Transactions with non-controlling interests		-	-	(5)	-	-	(5)	57	52
Transactions with owners		-	-	39	-	-	39	57	96
Changes in equity		-	-	1,037	-	565	1,602	449	2,051
Equity at 30 June		185	(191)	10,072	-	(881)	9,185	655	9,840

1 Basis of preparation

The condensed consolidated interim financial statements of ISS A/S for the period 1 January - 30 June 2023 comprise ISS A/S and its subsidiaries (collectively, the Group) and have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional requirements of the Danish Financial Statements Act.

The report does not include all the information and note disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements as at 31 December 2022.

The accounting policies applied are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2022, except for the adoption of a number of new and amended standards, which became applicable for the current reporting period. None of these amendments have had a material impact on the Group's financial statements, including notes.

New accounting regulation

The IASB has issued a number of new standards and amendments not yet in effect or endorsed by the EU at the reporting date and therefore not implemented in this H1 2023 interim report.

None of these are currently expected to have a material impact on the Group's financial statements, including notes, when implemented.

2 Significant accounting estimates and judgements

The preparation of condensed consolidated interim financial statements requires management to make estimates, judgements and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Except for the judgements and estimates commented upon in other notes of these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2022, cf. Estimate and judgements on p. 55 in the consolidated financial statements for 2022.

3 Segments

ISS is a leading, global provider of workplace and facility service solutions operating in 30+ 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-based support structure, which are managed by our Global Key Account organisation, are combined in a separate segment "Other countries".

(DKKm)	Northern Europe	Central & Southern Europe	Asia & Pacific	Americas	Other countries	Total segments
YTD 2023						
Revenue, excl. IAS 29	14,428	13,594	7,037	4,773	303	40,135
Revenue 1)	14,428	13,144	7,037	4,773	303	39,685
Operating profit before other items, excl. IAS 29	626	538	414	189	11	1,778
Operating profit before other items	626	482	414	189	11	1,722
Operating profit	619	(801)	427	180	11	436
YTD 2022						
Revenue, excl. IAS 29	14,214	11,743	6,735	3,873	275	36,840
Revenue 1)	14,214	11,871	6,735	3,873	275	36,968
Operating profit before other items, excl. IAS 29	631	378	388	137	11	1,545
Operating profit before other items	631	366	388	137	11	1,533
Operating profit	659	355	536	117	11	1,678

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

Reconciliation of operating profit

(DKKm)	YTD 2023	YTD 2022
Operating profit for reportable segments	436	1,678
Unallocated corporate costs	(472)	(472)
Operating profit	(36)	1,206

4 Revenue

(DKKm)	YTD 2023	YTD 2022
Customer category		
Key accounts	28,019	26,381
Large and medium	9,381	8,394
Small and route-based	2,261	2,168
Total	39,661	36,943
Customer segments		
Office-based	15,640	14,883
Production-based	9,730	8,642
Healthcare	5,106	4,868
Other	9,185	8,550
Total	39,661	36,943
Core services		
Cleaning	17,126	17,104
Technical	8,970	8,036
Food	5,768	4,654
Workplace, including Other	7,797	7,149
Total	39,661	36,943

5 Share-based payments

Long-Term Incentive Programme (LTIP)

In March 2023 a new annual LTIP programme (LTIP 2023) was established, and a total of 917,010 new performance-based share units (PSUs) were granted to members of the EGM (EGMB and Corporate Senior Officers of the Group) and other senior officers of the Group. The Group's LTIP programme is described in note 6.2 in the consolidated financial statements for 2022. Like previous grants under the LTIP, the PSUs will vest on the date of the third anniversary of the grant, subject to achievement of certain performance targets and service criteria. Upon vesting, each PSU entitles the holder to receive one share at no cost.

	LTIP 2023
PSUs and participants (number)	
Maximum PSUs at initial grant date	1,148,075
Total PSUs granted	917,010
Participants	149
Fair value (DKKm)	
Fair value of PSUs at initial grant date	109

Vested programmes

In March 2023, the LTIP 2020 programme vested. Based on the annual EPS and TSR performance for 2020, 2021 and 2022, 32% of the granted PSUs vested. After this vesting, no further PSUs are outstanding under the LTIP 2020, and the programme has lapsed.

6 Other income and expenses, net

(DKKm)	YTD 2023	YTD 2022
Gain on divestments	14	181
Other income	14	181
Loss on divestments	(5)	-
Integration costs	(6)	(1)
Impairment loss, ISS France	(320)	-
Other expenses	(331)	(1)
Other income and expenses, net	(317)	180

Gain on divestments related to the divestment of the Landscaping business and Sanitation Services in Singapore. In 2022, the gain mainly related to the divestment of Waste Management in Hong Kong and the damage control business in the UK.

Loss on divestments mainly related to the divestment of the security business in Spain.

Integration costs related to the acquisition of Livit FM Services AG in Switzerland in 2022.

Impairment loss, ISS France related to impairment of software, right-of-use assets and property, plant and equipment (non-monetary assets) identified in the impairment test performed at 30 June 2023. cf. Note 7, Impairment tests.

7 Impairment tests

The Group performs impairment tests on intangibles, i.e. goodwill, brands and customer contracts, annually and whenever there is an indication that intangibles may be impaired. The annual impairment test is performed as per 31 December based on financial budgets approved by management covering the following financial year.

Impairment test results 30 June 2023

At 30 June 2023, the Group performed a review for indications of impairment of the carrying amount of intangibles. Except for France, it is management's opinion, based on the review performed, that excess values are fairly resilient to any likely and reasonable deteriorations in the key assumptions applied and presented in note 3.2 in the consolidated financial statements for 2022.

France The impairment test for France resulted in recognition of an impairment loss of DKK 1,257 million of which DKK 937 million related to goodwill and DKK 320 million related to software, right-of-use assets and property, plant and equipment (non-monetary assets). In determining the impairment losses, management has assessed that fair value less cost to sell does not exceed the calculated value in use.

During the first six months of 2023, the country leadership team has worked diligently on implementing the updated business improvement plan from December 2022. Management is still committed to implement the improvement initiatives. However, it has in evaluating H1 2023 operational performance and the status of the business become clear that significant profitability improvements cannot currently be achieved on a stand-alone basis without further restructurings and additional investments. Accordingly, management has lowered its expectations in the forecasting period to an average growth of 0.3% (previously 1.8%) and an average operating margin of (2.9)% (previously (0.2)%). Furthermore, management expects that the terminal margin will only be able to reach break-even level (previously 5.0%). These expectations are not reflecting any cost of potential significant transformative restructurings and investments nor any effect thereof.

Applied assumptions, sensitivities and carrying amounts for France are illustrated below.

	Goodwill	Forecasting period Growth		Forecasting period Margin [1]		Terminal period Growth		Terminal period Margin [1]		Discount rate, net of tax	
	Carrying amount (DKKm)	Applied avg. rate	Allowed decrease	Applied avg. rate	Allowed decrease	Applied avg. rate	Allowed decrease	Applied avg. rate	Allowed decrease	Applied avg. rate	Allowed increase
30 June 2023	-	0.3%	0.0%	(2.9)%	0.0%	2.0%	0.0%	0.0%	0.0%	9.9%	0.0%
31 Dec 2022	936	1.8%	1.8%	0.2%	1.2%	2.5%	0.7%	5.0%	0.4%	9.4%	0.6%

[1] Excl. allocated corporate costs

Subsequently, on 9 August 2023 ISS announced its intention to divest ISS France resulting in classification as held for sale and discontinued operations as of this date. The changed classification did not result in additional impairment losses.

8 Financial income and expenses

(DKKm)	YTD 2023	YTD 2022
Interest income on cash and cash equivalents	40	33
Monetary gain on hyperinflation restatement	40	102
Financial income	80	135
Interest expenses on loans and borrowings [1]	(152)	(147)
Interest expenses on lease liabilities [1]	(55)	(34)
Bank fees	(32)	(25)
Amortisation of financing fees (non-cash) [1]	(18)	(11)
Net interest on defined benefit obligations	(10)	(11)
Foreign exchange losses	(86)	(28)
Other	(45)	(36)
Financial expenses	(398)	(292)

[1] Measurement basis amortised cost.

Monetary gain on hyperinflation restatement related to restatement of non-monetary items of the financial position and offsetting of the inflation restatement of profit or loss items, cf. note 14, Hyperinflation in Turkey. The decrease compared to last year was mainly driven by a slowdown in the inflation in Turkey during first half of 2023.

Interest expenses on lease liabilities have increased compared to 2022 due to rising interest rates.

Foreign exchange losses mainly related to losses on unhedged TRY and EUR denominated intercompany loans.

9 Divestments, assets held for sale and discontinued operations

The Group completed four divestments during 1 January - 30 June 2023 (five during 1 January – 30 June 2022), including the completion of the divestment of our business in Brunei, which marked the finalisation of the Group's strategic divestment programme. Consequently, at 30 June 2023 no businesses were classified as held for sale.

Profit or loss effect

In H1 2023, the Group's divestments resulted in recognition of a net gain of DKK 41 million in profit or loss. The net gain was recognised in Other income and expenses, net (DKK 9 million (gain)) and Other income and expenses, net in discontinued operations (DKK 32 million (gain)). Recycling of accumulated foreign exchange adjustments recognised in equity had a positive impact on the net gain of DKK 18 million related to Brunei.

Company/activity	Country	Service type	Excluded from P/L	Interest	Annual revenue (DKKm)	Employees (number)
ISS Brunei	Brunei	Country exit	February	100%	44	539
Security Business	Spain	Technical	April	100%	52	181
Landscaping	Singapore	Technical	July	100%	67	260
Sanitation Services	Singapore	Technical	July	100%	23	26
Total					186	1,006

Divestment impact

(DKKm)	YTD 2023	YTD 2022
Goodwill	17	188
Other non-current assets	18	162
Current assets	59	320
Non-current liabilities	-	(24)
Loans and borrowings	(5)	(23)
Current liabilities	(27)	(246)
Net assets disposed	62	377
Gain/(loss) on divestment, net	23	261
Divestment costs	15	46
Consideration received	100	684
Cash in divested businesses	(23)	(86)
Cash consideration received	77	598
Contingent and deferred consideration	(4)	38
Divestment costs paid	(14)	(37)
Divestment of businesses (cash flow)	59	599

Divestments subsequent to 30 June 2023

The Group completed a minor divestment in Spain in July. The divestment has no material impact.

9 Divestments, assets held for sale and discontinued operations (continued)

Discontinued operations

Statement of profit or loss

(DKKm)	YTD 2023	YTD 2022
Revenue	4	363
Expenses	(3)	(352)
Operating profit before other items	**1**	**11**
Other income and expenses, net [1)]	32	112
Operating profit	**33**	**123**
Financial income/(expenses), net	-	-
Net profit before tax	**33**	**123**
Income tax	1	(1)
Net profit from discontinued operations	**34**	**122**
Earnings per share, DKK		
Basic earnings per share (EPS)	0.2	0.7
Diluted earnings per share	0.2	0.7

[1)] Related to the net gain from the divestment of Brunei in H1 2023, including recycling of accumulated foreign exchange adjustments from Other comprehensive income amounting to DKK 18 million (gain) (2022: Gain related to the divestments of Portugal, Russia and Taiwan).

Statement of cash flows

(DKKm)	YTD 2023	YTD 2022
Operating activities	0	18
Investing activities	(14)	(69)
Financing activities	(20)	9

Discontinued operations
- presented in separate profit or loss line

HY 2023	HY 2022
- Brunei	- Brunei - Portugal - Russia - Taiwan

10 Changes in working capital

(DKKm)	YTD 2023	YTD 2022
Changes in inventories	(25)	(24)
Changes in receivables	(1,778)	(935)
Changes in payables	183	1,242
Total	(1,620)	283

11 Free cash flow

Free cash flow as defined by Management, cf. Definitions on page 106 in the consolidated financial statements for 2022, is summarised below. Free cash flow is not a financial performance measure defined by IFRS. Accordingly, the measure and its calculation is presented as it is used by management as an alternative performance measure in managing the business.

The free cash flow measure should not be considered a substitute for those measures required by IFRS and may not be calculated by other companies in the same manner. As such, reference is made to the IFRS measures included in the consolidated statement of cash flows on p. 19.

(DKKm)	YTD 2023	YTD 2022
Cash flow from operating activities	(322)	1,354
Acquisition of intangible assets and property, plant and equipment	(364)	(390)
Disposal of intangible assets and property, plant and equipment	9	21
Acquisition of financial assets, net [1)]	9	(49)
Addition of right-of-use assets, net	(406)	(292)
Total	(1,074)	644

[1)] Excluding investments in equity-accounted investees of DKK 10 million (2022: DKK 39 million).

12 Pensions and similar obligations

For interim periods, the Group's defined benefit obligations are based on valuations from external actuaries carried out at the end of the prior financial year taking into account any subsequent movements in the obligation due to pension costs, contributions etc. up until the reporting date. For interim periods, actuarial calculations are only updated to the extent that significant changes in applied assumptions have occurred. Based on an overall analysis carried out by management, it is determined whether updated actuarial calculations should be obtained for interim periods.

At 30 June 2023, the overall evaluation carried out by management resulted in updated actuarial calculations being obtained for Switzerland and the UK due to market fluctuations, which had impacted interest rates, inflation rates and asset values. Furthermore, an updated actuarial calculation has been obtained for Turkey due to legislative changes as well as market fluctuations. The legislative change in Turkey entails the possibility of early retirement for certain employees resulting in recognition of an additional cost of DKK 21 million in profit or loss. The updated calculations for Switzerland, the UK and Turkey led to recognition of an actuarial loss of DKK 99 million and impairment from asset ceiling of DKK 18 million, which were partially offset by gain on plan assets of DKK 13 million. The net loss of DKK 104 million was recognised in other comprehensive income with a resulting increase in the group's defined benefit obligations.

13 Provisions

(DKKm)	Legal claims and disputes	Self-insurance	Restruc-turings	Onerous contracts	Other	YTD 2023	YTD 2022
At 1 January	268	245	71	77	410	1,071	1,716
Foreign exchange adjustments	2	(6)	-	(1)	(0)	(5)	26
Additions	23	109	-	6	1	139	85
Used during the year	(93)	(101)	(52)	(11)	(18)	(275)	(483)
Unused amounts reversed	(41)	(2)	(14)	(5)	(15)	(77)	(45)
Reclass (to)/from other liabilities	38	51	3	(20)	(14)	58	(8)
At 30 June	**197**	**296**	**8**	**46**	**364**	**911**	**1,291**
Non-current	43	174	3	1	250	471	591
Current	154	122	5	45	114	440	700

Restructurings Execution of restructuring projects initiated following Covid-19 was completed in H1 2023 and resulted in payments of DKK 52 million mainly in Germany.

14 Hyperinflation in Turkey

The table below shows the accounting impact of the hyperinflation restatements for the period 1 January - 30 June 2023:

(DKKm)	YTD 2023 (excl. IAS 29)	Inflation restatement: Non-monetary items (in year)	Inflation restatement: Profit or loss	Retrans-lation (end rates)	Total adjust-ments	YTD 2023 (reported)
Profit or loss						
Revenue	40,111	-	136	(586)	(450)	39,661
Operating profit before other items	1,306	(22)	12	(46)	(56)	1,250
Operating profit	10	(27)	12	(31)	(46)	(36)
Net profit	(549)	8	-	(14)	(6)	(555)
Cash flows						
Cash flow from operating activities	(311)	-	-	(11)	(11)	(322)
Cash flow from investing activities	(282)	-	-	5	5	(277)
Cash flow from financing activities	(685)	-	-	(3)	(3)	(688)
Free cash flow (non-IFRS)	(1,072)	-	-	(2)	(2)	(1,074)
Financial ratios (%)						
Organic growth (non-IFRS)	10.85	-	-	-	-	10.85
Operating margin	3.26	(0.06)	0.03	(0.07)	(0.10)	3.16
Financial position						
Goodwill	19,086	119	-	-	119	19,205
Other intangible assets	3,298	55	-	-	55	3,353
Right-of-use assets and Property, plant and equipment	2,994	11	-	-	11	3,005
Other assets	19,569	-	-	-	-	19,569
Total assets	44,947	185	-	-	185	45,132
Other comprehensive income	(556)	164	-	-	164	(392)
Other equity elements	9,840	8	-	-	8	9,848
Total equity	9,284	172	-	-	172	9,456
Deferred tax liabilities	1,132	13	-	-	13	1,145
Other liabilities	34,531	-	-	-	-	34,531
Total equity and liabilities	44,947	185	-	-	185	45,132

15 Subsequent events

Acquisition in Spain
On 11 July 2023, ISS signed an agreement to acquire 100% of the shares in Grupo Fissa in Spain. Closing is expected in Q3 2023.

The acquisition will strengthen our market position in Spain and enable ISS to expand and develop its cleaning service offering to public sector customers predominantly in Southern Spain.

The acquisition will add annual revenue of DKK 721 million, representing around 1% of Group revenue (estimated based on unaudited financial information), and more than 4,500 employees.

Intention to divest the French business with the exception of Global Key Account customers
Today, ISS announced its intention to divest its French business with the exception of Global Key Account customers that would become the exclusive focus going forward.

Historically, financial results in France have not been satisfactory and have been dilutive to Group operating margins and growth. Furthermore, the development in France has not generated the expected financial improvements due to inherent strategic challenges, difficult market conditions, and continued muted commercial development.

During the past several years, ISS has worked towards restructuring the business and establishing a solid foundation in the French market. However, building a long-term, sustainable business with a strengthened market position in France will require further significant investments and management attention. ISS therefore intends to strategically reposition itself in the French market to focus on servicing its Global Key Account customers and intends to divest its other activities.

As a consequence, as of today, ISS France, excluding Global Key Account customers, will be classified as held for sale and discontinued operations in accordance with IFRS. Consequently, for 2023 the results of ISS France will be presented in "Net profit from discontinued operations" in the statement of profit or loss, and comparative figures for 2022 will be restated accordingly. In the statement of financial position, assets and liabilities of ISS France will be reclassified to a single asset and liability line, respectively, with no restatement of comparative figures. The statement of cash flows will be unchanged.

Classification as held for sale as of today did not result in impairment losses in addition to the total impairment losses of DKK 1,257 million recognised in the Group's statement of profit or loss as per 30 June 2023.

Expected impact on profit or loss of reclassification						
(DKKm)	YTD 2023 (reported)	ISS France (estimated effect of reclass.)	YTD 2023 (adjusted)	YTD 2022 (reported)	ISS France (estimated effect of reclass.)	YTD 2022 (adjusted)
Revenue	39,661	(1,331)	38,330	36,943	(1,370)	35,573
Expenses	(38,411)	1,422	(36,989)	(35,882)	1,409	(34,473)
Operating profit before other items	**1,250**	**91**	**1,341**	**1,061**	**39**	**1,100**
Other income and expenses, net	(317)	321	4	180	-	180
Goodwill impairment	(937)	937	-	-	-	-
Amortisation/impairment of brands and customer contracts	(32)	-	(32)	(35)	-	(35)
Operating profit	**(36)**	**1,349**	**1,313**	**1,206**	**39**	**1,245**
Financial expenses, net	(318)	6	(312)	(157)	2	(155)
Profit before tax	**(354)**	**1,355**	**1,001**	**1,049**	**41**	**1,090**
Income taxes	(235)	25	(210)	(252)	7	(245)
Profit from continuing operations	**(589)**	**1,380**	**791**	**797**	**48**	**845**
Profit from discontinued operations	34	(1,380)	(1,346)	122	(48)	74
Net profit	**(555)**	**-**	**(555)**	**919**	**-**	**919**
Organic growth, %	10.9%		11.4%	6.7%		7.3%
Operating margin (before other items), %	3.2%		3.5%	2.9%		3.1%
Operating margin (before other items), %, excl. IAS 29	3.3%		3.6%	2.9%		3.1%

Other than set out above or elsewhere in these condensed consolidated interim financial statements, we are not aware of events subsequent to 30 June 2023, which are expected to have a material impact on the Group's financial position.

Other

Conference Call

A conference call will be held on 10 August 2023 at 10:00 am CEST. Presentation material will be available online prior to the conference call.

Dial-in details

DK: +45 7876 8490
SE: +46 4 0682 0620
UK: +44 203 7696 819
US: +1 646 787 0157

PIN Code for all countries: 283234

Link: https://issworld.eventcdn.net/events/interim-report-h1-2023

For investor enquiries

Jacob Johansen, Head of Group Investor Relations
Phone: +45 21 69 35 91
E-mail: jjo@iss.biz

Kristian Tankred, Senior Investor Relations Manager
Phone: +45 30 67 35 25
E-mail: krt@iss.biz

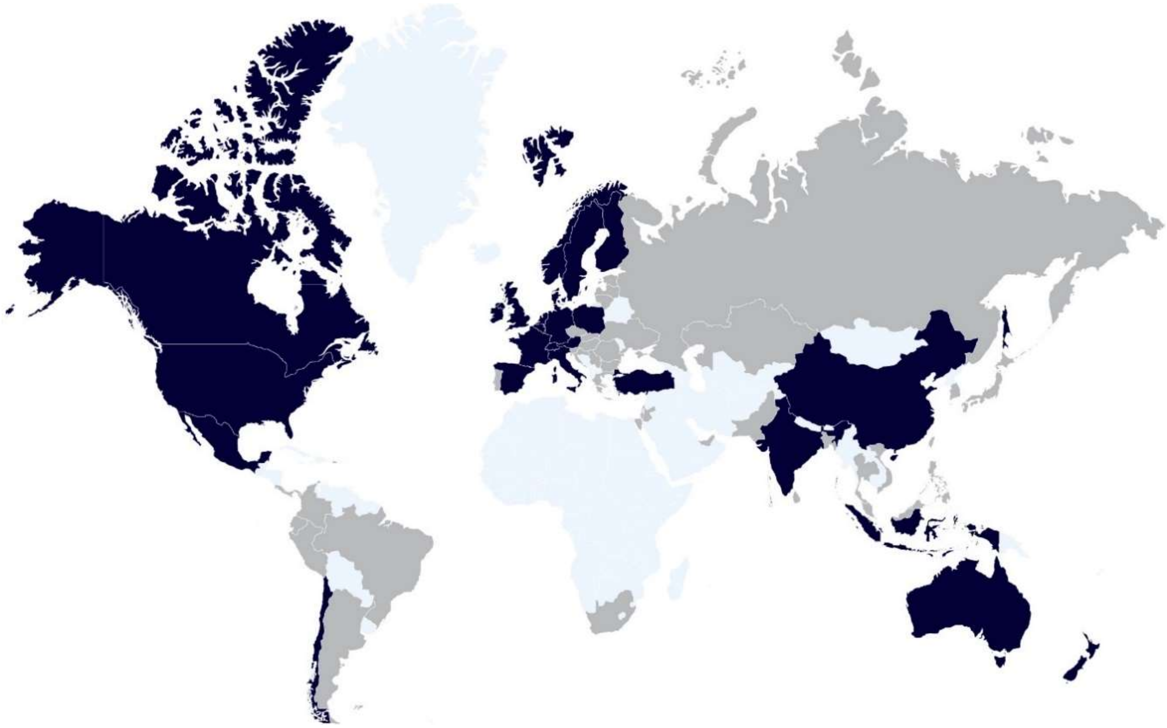
For media enquiries

Kenni Leth, Director of External Communications
Phone: +45 51 71 43 68
E-mail: kle@iss.biz

Contact information

ISS A/S
Buddingevej 197
DK-2860 Søborg
Tel.: +45 38 17 00 00
Fax.: +45 38 17 00 11
www.issworld.com
CVR 28 50 47 99

Our global footprint



ISS is a leading, global provider of workplace and facility service solutions. In partnership with customers, ISS drives the engagement and well-being of people, minimises the impact on the environment, and protects and maintains property. ISS brings all of this to life through a unique combination of data, insight and service excellence at offices, factories, airports, hospitals and other locations across the globe. In 2022, Group revenue was DKK 76.5 billion.