

Company Announcement

ISS today announces its full year 2022 financial results

Continued strong business momentum – ISS enters the next phase of the OneISS strategy

Highlights

- Business momentum continued during the last part of 2022 with accelerating organic growth, solid operating margin and free cash flow improvements.
- Execution of the OneISS strategy continued, and the consolidated financial turnaround targets were achieved. ISS is now entering the next phase of the strategy, targeting to deliver strong growth at sustainable and attractive margins.
- The five key strategic priorities are unchanged with focus on growth, brilliant operating basics, technology, planet and people. ISS will with the 'Customer for life' initiative, enhance the focus on customer retention.
- ISS has well-embedded processes in place, to tightly manage inflation through price increases and operational efficiencies. As a result, the operating margin in 2022 was generally unaffected by inflation.
- The strengthening of commercial processes is starting to show results. Since the Q3 Trading Update, ISS has won an IFS contract with a regional bank in Australia, signed a global partnership with a healthcare customer and secured important contract extensions.
- The integration of the Swiss acquisition, Livit FM, is progressing well. Key IT migration processes were concluded ahead of plan and operational integration has been successfully completed. A significant share of the synergies is realised, leading to the business being margin accretive to both country and Group.
- Financial results were in line with the preliminary announcement on 23 January 2023. Organic growth in Q4 2022 was 9.4% (Q4 2021: 5.8%) and 7.8% for the full-year 2022 (2021: 2.0%). The growth was driven by the return-to-office trend, as well as scope and price increases, with prices in Turkey contributing with around 1.5%-points to the organic growth the full-year. In 2022, the operating margin before other items excluding hyperinflation effect (IAS 29) was 3.8% (2021: 2.5%) and free cash flow amounted to DKK 1.7 billion (2021: DKK 1.7 billion).
- The impact on the Group's financial KPIs from IAS 29 (hyperinflation accounting) was immaterial.
- Financial leverage at the end of 2022 was reduced to 2.6x from 3.8x at the end of 2021. Based on the financial results for 2022, the Board of Directors will at the annual general meeting propose a dividend for 2022 of 20% of adjusted net profit, corresponding to a total dividend of DKK 390 million and DKK 2.1 per share.
- For 2023, organic growth is expected to be 4 - 6%. The operating margin is expected to be 4.25 - 4.75% and free cash flow is expected to be around DKK 2.0 billion.

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

"Our solid business performance in 2022 was driven by the continued execution of the OneISS strategy with a strong focus on growth, operational excellence, investments in technology, sustainability and not least our dedicated placemakers. The commercial momentum remained robust throughout the year with the signing and extension of several key accounts. This proves the resilience of our business model in a challenging macroeconomic environment. As we move into the next phase of our strategy, we remain committed to deliver value to our customers and shareholders, while making a positive impact on the planet and our communities."

Financial overview	H2 2022	H2 2021	2022	2021	Q4 2022	Q3 2022
DKKm (unless otherwise stated)						
Revenue	39,595	36,470	76,538	71,363	20,284	19,311
Organic growth, %	8.8	4.3	7.8	2.0	9.4	8.1
Operating profit before other items	1,786	1,227	2,847	1,776		
Operating profit before other items (Excl. IAS 29)	1,803	1,227	2,876	1,776		
Operating margin (before other items), %	4.5	3.4	3.7	2.5		
Operating margin (before other items), % (Excl. IAS 29)	4.6	3.4	3.8	2.5		
Free cash flow	1,090	90	1,734	1,735		
Leverage (Net debt / Pro forma adj. EBITDA*)			2.6x	3.8x		

*Pro forma adjusted EBITDA excl. Restructuring costs and one-offs

Key figures and financial ratios

Financials	H2 2022	H2 2021	2022	2021 ¹⁾
Results (DKKm)				
Revenue	39,595	36,470	76,538	71,363
Operating profit before other items (Excl. IAS 29)	1,803	1,227	2,876	1,776
Operating profit before other items	1,786	1,227	2,847	1,776
Operating profit	1,629	1,192	2,835	1,701
Financial expenses, net	(232)	(367)	(389)	(656)
Net profit from continuing operations	1,208	417	2,005	536
Net profit from discontinued operations ²⁾	9	(31)	131	101
Net profit	1,217	386	2,136	637
Net profit adjusted	1,341	452	1,940	611
Cash flow (DKKm)				
Cash flow from operating activities	1,979	1,026	3,333	3,221
Addition of right-of-use assets, net	(477)	(627)	(769)	(870)
Acquisition of intangible assets and property, plant and equipment, net	(410)	(283)	(779)	(586)
Free cash flow (Excl. IAS 29)	1,083	90	1,726	1,735
Free cash flow	1,090	90	1,734	1,735
Financial position (DKKm)				
Total assets	47,005	43,655	47,005	43,655
Goodwill	20,450	19,753	20,450	19,753
Additions to property, plant and equipment	-	-	345	335
Equity	10,815	7,789	10,815	7,789
Net debt	11,540	13,451	11,540	13,451
Shares ('000)				
Number of shares issued	-	-	185,668	185,668
Number of treasury shares	-	-	938	970
Average number of shares (basic)	-	-	184,730	184,698
Average number of shares (diluted)	-	-	187,243	186,003
Ratios	H2 2022	H2 2021	2022	2021 ¹⁾
Financial ratios (% , unless otherwise stated)				
Operating margin ³⁾	4.5	3.4	3.7	2.5
Operating margin excl. IAS 29	4.6	3.4	3.8	2.5
Equity ratio	23.0	17.8	23.0	17.8
Organic growth	8.8	4.3	7.8	2.0
Acquisitions and divestments, net	(1.4)	(0.6)	(1.7)	(0.5)
Currency adjustments	1.2	1.1	1.2	(0.6)
Total revenue growth	8.6	4.8	7.3	0.9
Cash conversion	61.0	7.3	60.9	97.7
Net debt / Pro forma adjusted EBITDA	-	-	2.6x	3.8x
Share ratios (DKK)				
Basic earnings per share (EPS)	-	-	11.1	3.3
Diluted EPS	-	-	11.0	3.3
Basic EPS (continuing operations)	-	-	10.4	2.8
Diluted EPS (continuing operations)	-	-	10.3	2.8
Proposed dividend per share, DKK	-	-	2.1	-
Social data	H2 2022	H2 2021	2022	2021 ¹⁾
Full-time employees	-	-	77 %	76 %
Employees end of period, number	-	-	351,053	354,636
Employee turnover	-	-	33 %	30 %
Customer retention	-	-	93 %	92 %
Lost Time Injury Frequency	-	-	2.9	2.7
Fatalities, number	-	-	1	5

1) In 2021, Chile was reclassified as held for use and continued operations.

2) In 2022, Brunei, Portugal, Russia and Taiwan were presented as discontinued operations. In 2021, Brunei, Czech Republic, Hungary, Portugal, the Philippines, Romania, Russia, Slovenia, Slovakia and Taiwan were presented as discontinued operations.

3) Based on Operating profit before other items.

Group performance

Update on strategic focus areas

The successful execution of the OneISS strategy progressed during 2022, and the financial turnaround targets were achieved. The operating margin at the end of 2022 was from a run-rate perspective above 4%, while the net debt was reduced to below 3x pro-forma adjusted EBITDA (LTM). ISS has therefore entered the next phase of the OneISS strategy with a clear focus to deliver strong growth at sustainable and attractive margins. The five key strategic priorities are unchanged, and ISS focuses on providing integrated facility services to key accounts within three prioritised segments (office-based, production-based and healthcare) from a stronghold as global leader in cleaning.

Customer retention increased to a five-year high and ended 2022 at around 94%, excluding the deliberate exit of the Danish Defence contract (93% incl. the exit of the Danish Defence contract). To further enhance the focus on customer retention, ISS is launching the 'Customer for life' programme. The objective of the programme is to increase value creation for all parties throughout the lifetime of the contract. The commercial mindset and methodology will be restructured and strengthened to drive continued retention in our chosen customer segments, based on right terms and behaviours. The programme is launched in 2023 in five countries and across the Global Key Accounts.

Commercial momentum progressed during 2022 and the strengthening of the commercial organisation and processes showed results. ISS has extended a long list of key account contracts. In addition, all global key account contracts being up for renewal for the last two years were successfully extended. Since the Q3 Trading Update, ISS won a new contract with a regional bank in Australia, as well as extended the contract with a major technology customer in the US and signed a new partnership with a healthcare company.

In Q4 2022, ISS acquired the Swiss facility management provider, Livit FM to expand and develop the service delivery to the Swiss real estate segment. The integration process is progressing well, and important IT system integrations have been completed ahead of plan. Operational integration and onboarding of new employees have also been successfully concluded. As a result, a significant share of the overhead synergies has been realised, and the business is now margin accretive to both the country and the Group as a whole.

Turnaround initiatives

Throughout the year, turnaround of the underperforming countries and contracts progressed, and at consolidated level the financial turnaround targets were achieved at the end of 2022.

In **the UK**, the strong strategic execution continued following country management changes in 2021, and the country's turnaround target of a low single-digit run-rate operating margin was achieved in Q1 2022 with continued positive development upon achievement. The simplification and streamlining of the organisational structure in line with the OneISS blueprint had a positive impact on productivity and financial performance at both contract and country level.

In **France**, the implementation of the planned restructuring programme was completed in 2022. However, the run-rate profitability was lower than anticipated, in part due to exposure to certain industry segments with slower than expected Covid-19 recovery and muted commercial momentum. In the second half of 2022, the organisation was strengthened with a new country manager who has recruited commercial and operational resources to execute an updated business improvement plan.

The execution of the comprehensive restructuring and gap closing programme for the **Deutsche Telekom** contract continued and the operational and financial performance improved accordingly. The operating margin increased throughout 2022 and reached the turnaround target of a breakeven level at the end of the year. The contract continues to be structurally challenging. Following an agreed dispute resolution mechanism, certain contractual disagreements are subject to arbitration proceedings initiated by ISS.

The contract with the **Danish Defence** was successfully exited in Q2 2022. Consequently, no revenue was recognised in H2 2022.

The first part of the OneISS strategy is hereby concluded. Therefore, ISS will no longer provide detailed reporting on the turnaround initiatives.

Divestment programme

During Q4 2022, the divestment of Brunei was signed, and the transaction was completed on 9 February 2023. Brunei was the only country remaining as assets held for sale.

H2 2022 Business and Financial update

The general business environment in H2 2022 was characterised by continued gradual recovery as customers increasingly returned to the offices. Additionally, the awareness of facility services as an important enabler for corporate development has risen post Covid-19 and therefore customers have increased investments in workplaces. Organic growth in H2 2022 was 8.8% with an improving trend in Q4 2022 where organic growth was 9.4%. In H2 2022, the impact from acquisitions and divestments, net was (1.4)% (Q4 2022: (1.2%)) and currency effects increased revenue by 1.2% (Q4 2022: (0.0)%). The net impact from hyperinflation restatement in Turkey (IAS 29) in H2 2022 was neutral (Q4 2022: (0.4)%).

Organic growth was driven by the continued strong return-to-office trend, scope increases as customers increased investments in upgrading workplaces and service offerings, and price increases implemented across the Group to offset the higher cost inflation. This had a positive effect on portfolio revenue in H2 2022 which grew organically by 11.1% (Q4 2022: 12.3%). Price increases contributed with just below 3%-point for the full-year 2022, with around half of the effect coming from Turkey.

In H2 2022, revenue from projects and above-base work declined by 0.9% (Q4 2022: (1.4%)), driven by lower demand for Covid-19 related deep cleaning and disinfection services. This was, however, partly offset by more traditional above-base work. The demand for projects and above-base work remained high and exceeded the pre-pandemic level. For the full-year 2022, the contribution to organic growth was negative 0.3%-point.

Throughout 2022, ISS generated revenue above the pre Covid-19 level in 2019. In Q4 2022, organic growth compared to Q4 2019 was 3%, with food services continuing its strong recovery, and the

service line was at index 98 in the quarter. In general, the recovery has been strongest for the services which are dependent on people being physically present at the workplaces. This was particularly positive for revenue from food services which for the full-year 2022 grew by around 35%. In US in isolation, growth within food was approx. 75%. On a Group level, food services accounted for 13% (2021: 11%) of revenue in 2022. Furthermore, the positive development among key account customers continued with organic growth of 8.4% for the full-year 2022 and outperformed the business in general.

All regions contributed with positive organic growth in the second half of 2022 with accelerating trends in Asia Pacific and Central & Southern Europe, while the Americas reported slightly lower organic growth primarily because the comparison base included the impact of return-to-office trends, which commenced during H2 2021. Northern Europe maintained the level from the first nine months of the year.

Operating profit before other items excluding the effect from IAS 29 (hyperinflation in Turkey) amounted to DKK 1,803 million in H2 2022 (H2 2021: DKK 1,227 million), corresponding to an operating margin of 4.6% (H2 2021: 3.4%). Including the effect from IAS 29, operating profit before other items was DKK 1,786 million and operating margin was 4.5%. The margin increase was driven by continued improvement of the underperforming countries and contracts mainly the UK and the Deutsche Telekom contract. The positive effect from higher revenue was, however, partly offset by higher costs related to mobilisation of contract wins and increased commercial investments.

In 2022, realised cost inflation was higher than seen for many years. ISS has well-embedded processes in place, and inflation is managed tightly through price increases and operational efficiencies. As a result, the operating margin was generally unaffected by inflation.

Revenue and growth

DKKm	H2 2022	H2 2021	Organic growth	Acq./ div.	Currency & other adj.	Revenue Growth
Northern Europe	14,480	14,226	3%	-	(1)%	2%
Central & Southern Europe	12,821	11,875	10%	1%	(3)%	8%
<i>Central & Southern Europe, excl IAS 29</i>	<i>12,795</i>	<i>11,875</i>	<i>10%</i>	<i>1%</i>	<i>(3)%</i>	<i>8%</i>
Asia & Pacific	7,277	6,220	9%	(1)%	9%	17%
Americas	4,712	3,831	24%	(12)%	11%	23%
Other countries	331	341	(3)%	-	-	(3)%
Corporate / eliminations	(26)	(23)	-	-	-	-
Group ¹⁾	39,595	36,470	8.8%	(1.4)%	1.2%	8.6%

¹⁾ The net impact from hyper inflation restatement in Turkey (IAS29) was 0.0% on Group-level, that has been included in Currency & other adj.

Regional Performance

The organic growth in **Northern Europe** in Q4 2022 was 4%, which was an improvement from 2% in Q3 2022. The improvement was driven by the solid return-to-office trend across the region supported by contract start-ups in Norway and Sweden. Organic growth in Denmark was negative due to the exit of the contract with the Danish Defence. Operating margin in H2 2022 was 6.1% compared to 6.4% in the H2 2021. The underlying margins increased across the region driven by continued operational improvements. However, a lower level of projects and above-base work and margin decline in Denmark due to lower revenue offset the positive margin development.

In **Central & Southern Europe**, organic growth in Q4 2022 was 11%, in line with the 10% reported in Q3 2022. The strong growth in the region was mainly driven by Turkey, as a result of price increases implemented to offset the high-cost inflation and underlying higher activity level within the healthcare segment. Despite relatively lower exposure to food services, and thereby less positive effect from return-to-office, the region reported solid growth. Operating margin excl. IAS 29 improved to 5.7% in H2 2022 compared to 3.9% in the same period last year, mainly driven by strong execution of the restructuring of the Deutsche Telekom contract and general underlying improvements across the region. Incl. impact from IAS 29, the operating margin was 5.6%.

Asia & Pacific reported 11% organic growth in Q4 2022, a clear improvement compared to 7% in Q3 2022. Throughout the year, growth rates have accelerated driven by the continued return-to-office trend benefitting from lifted Covid-19 restrictions. India and Australia benefitting in particular from the higher activity levels and new contract wins. Operating margin was 6.8% in H2 2022, an increase from 5.9% in H2 2021. The improvement was driven by underlying operational improvements and operating leverage from the higher revenue.

The **Americas** region reported organic growth of 21% in Q4 2022 following 28% organic growth in Q3 2022. The strong development with positive contributions from food services continued. The return-to-office trend continues to drive growth, but to a lower extent as Q4 2021 also benefitted from accelerating return-to-office activity. Furthermore, the organic growth was supported by the start-up of the contract with a major retailer which transitioned in H2 2022. Operating margin was 6.5% in H2 2022 compared to 5.0% in H2 2021, driven by underlying improvements and certain one-offs including employee tax credits in the US. Full-year depreciations were recognised in H2 2021 in Chile, as the country was reclassified back to continuing operations.

Operating profit ¹⁾ and margin

DKKm	H2 2022		H2 2021	
Northern Europe	888	6.1%	912	6.4%
Central & Southern Europe	713	5.6%	464	3.9%
<i>Central & Southern Europe, excl IAS 29</i>	730	5.7%	464	3.9%
Asia & Pacific	494	6.8%	365	5.9%
Americas	308	6.5%	192	5.0%
Other countries	16	5.0%	9	2.5%
Corporate / eliminations	(633)	-	(715)	-
Total	1,786	4.5%	1,227	3.4%

¹⁾ Before other items

Corporate costs amounted to DKK 633 million in H2 2022 compared to DKK 715 million in H2 2021. The decline was mainly a result of H2 2021 being impacted by initial costs related to investments in driving the enhanced operating model.

Financial expenses, net was DKK 232 million in H2 2022 compared to DKK 367 million in the same period last year. The decline was primarily due to additional costs related to the repurchase of outstanding bonds in December 2021 and hyperinflation adjustments (IAS 29).

The effective tax rate in H2 2022 was 13.5%, positively impacted by full-year effect from release of valuation allowances on deferred tax assets, non-taxable gains on divestments and hyperinflation.

Revenue and growth

DKKm	Q4 2022	Q4 2021	Organic growth	Acq./ div.	Currency & other adj.	Revenue Growth
Northern Europe	7,492	7,338	4%	(0)%	(2)%	2%
Central & Southern Europe	6,537	6,064	11%	0%	(3)%	8%
<i>Central & Southern Europe, excl IAS 29</i>	6,598	6,064	11%	0%	(2)%	9%
Asia & Pacific	3,655	3,167	11%	(1)%	5%	15%
Americas	2,427	1,998	21%	(9)%	9%	21%
Other countries	181	192	(5)%	-	(1)%	(6)%
Corporate / eliminations	(8)	(12)	-	-	-	-
Group ¹⁾	20,284	18,747	9.4%	(1.2)%	(0.0)%	8.2%

¹⁾ The net impact from hyperinflation restatement in Turkey (IAS 29) was (0.4)% on Group-level, that has been included in Currency & other adj.

Free cash flow

Free Cash Flow in H2 2022 amounted to DKK 1,090 million compared to DKK 90 million in H2 2021. The improved free cash flow was primarily a result of improved operating profit and changes in working capital. Payments of restructuring and one-off cost incurred in 2020 amounted to DKK 0.1 billion (H2 2021: DKK 0.3 billion). Free cash flow for the full-year 2022 amounted to DKK 1,734 million.

Despite the higher revenue, changes in working capital impacted free cash flow positively with DKK 161 million in H2 2022 compared to a negative contribution of DKK 558 million in H2 2021. Throughout the year, working capital was managed tightly, and the inflow in H2 2022 was driven by a slight increase in payables. Receivables were unchanged despite the higher activity level. Changes in working capital benefitted from certain early payments from customers related to 2023 of approx. DKK 0.2 billion. Utilisation of factoring increased slightly to DKK 1.3 billion at 31 December 2022 compared to DKK 1.1 billion at 30 June 2022. The increase was a result of the higher revenue with key account customers, where invoices are eligible for factoring as per our policy.

Acquisitions of intangible assets and property, plant and equipment, net increased to DKK 410 million in H2 2022 compared to DKK 283 million in H2 2021, as a result of increased activity level compared to the period during Covid-19.

Cash outflow from acquisitions of businesses in H2 2022 amounted to DKK 301 million (H2 2021: outflow of DKK 505 million) as a result of the acquisition of Livit FM in Switzerland. With the acquisition, ISS expand and develops the service delivery to the real estate segment.

Capital Structure

As part of the OneISS strategy, ISS has reduced financial leverage significantly, and in H2 2022 the turnaround target of net debt to pro-forma adjusted EBITDA (LTM) below 3x was achieved.

At the end of 2022, net debt was reduced to DKK 11.5 billion compared to DKK 12.2 billion at the end of H1 2022. The positive free cash flow was partly offset by the acquisition in Switzerland.

On 31 December 2022, financial leverage was 2.6x based on pro-forma adjusted EBITDA (LTM), a reduction from 3.0x on 30 June 2022. The improvement in the leverage ratio was due to a combination of lower net debt and an increase in pro-forma adjusted EBITDA (LTM).

With the reduction of the financial leverage and achievement of the turnaround target, ISS has presented an updated capital allocation policy. A key priority is to maintain an investment grade rating as it is important from both a financial and a 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.

The Board of Directors will at the annual general meeting propose a dividend for 2022 of 20% of adjusted net profit, corresponding to a total dividend of DKK 390 million DKK 2.1 per share. The pay-out is in line with the capital allocation policy of an annual dividend pay-out ratio of 20-40%.

Free cash flow¹⁾

DKKm	H2 2022	H2 2021	2022	2021
Cash flow from operating activities	1,979	1,026	3,333	3,221
Acquisition of intangible assets and property, plant and equipment	(419)	(316)	(809)	(628)
Disposal of intangible assets and property, plant and equipment	9	33	30	42
Acquisition of financial assets, net ²⁾	(2)	(26)	(51)	(30)
Addition of right-of-use assets, net	(477)	(627)	(769)	(870)
Free cash flow	1,090	90	1,734	1,735
Factoring variation	(170)	(90)	(176)	(60)
Free cash flow (adjusted)	920	0	1,558	1,675

¹⁾ See Definitions in Annual Report 2022, page 106.

²⁾ Excluding investments in equity-accounted investees.

Outlook

Outlook 2023

In 2022, ISS took significant steps in executing the OneISS strategy. The financial turnaround targets were delivered as planned, the issues in the four defined hotspots were addressed, and revenue was recovered to above pre-Covid-19 level. The operational and financial improvements achieved in 2022 provide a solid foundation for continued progress in 2023, and the financial targets are confirmed.

The outlook for 2023 assumes that macroeconomic and geopolitical uncertainties remain high. 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. The outlook is excluding any effects of hyperinflation (IAS 29).

Organic growth is expected to be 4 - 6% for 2023 (2022: 7.8%). Growth will be driven by price increases to offset cost inflation as the tight management of inflation will be maintained. In addition, underlying volume growth from annualisation of the return-to-office trend and continued customer investments in workplaces and services are expected, as well as positive contribution from contract wins and expansions. A negative impact is expected from a lower level of projects and above-base work.

Operating margin is expected to be 4.25 - 4.75% (2022: 3.8%). The main drivers of the year-on-year increase are continued improvement in the previous hotspots; UK, France and on the Deutsche Telekom contract, positive impact from OneISS efficiencies and cost initiatives, as well as operating leverage from higher revenue.

Free cash flow is expected to be around DKK 2.0 billion (2022: DKK 1.7 billion). The increase 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 driven by revenue growth and customer prepayments made in 2022, while capital expenditures are expected in line with depreciation and amortisation.

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

Acquisitions and divestments completed by 15 February 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 2-3%-points¹⁾ 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 month of 2023 and the average forward exchange rates (as of 13 February 2023) for the remaining eleven months of 2023.

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%

Overview of financial outlook

	2023	Financial targets
Organic growth	4 - 6%	4 - 6%
Operating margin ¹⁾	4.25 - 4.75%	Above 5%
Free cash flow	Around DKK 2.0 bn	
Cash conversion ²⁾		Above 60%

¹⁾ Based on operating profit before other items

²⁾ Cash conversion, % = Free cash flow/Operating profit before other items

This outlook should be read in conjunction with "Forward-looking statements", page 118 of the 2022 Annual Report

Other

Hyperinflation in Turkey

Countries, where the cumulative three-year inflation exceeds 100%, are generally considered highly inflationary, and application of IAS 29 "Financial Reporting in Hyperinflationary Economies" must be considered. ISS implemented IAS 29 for ISS entities in Turkey with effect from 1 January 2022.

Overall, the implementation of IAS 29 did not have a material impact on the Group's profit or loss and cash flow statements, and consequently the effect on our three key KPIs in 2022 was immaterial, i.e. organic growth and free cash flow were unchanged and operating margin decreased slightly by 5 bps.

Throughout this report, commentary on revenue and operating profit before other items is provided including and excluding the impact from IAS 29. However, commentary on items below operating profit before other items, are only provided including the impact of IAS 29, unless otherwise stated. Outlook continues to be presented excluding the impact from IAS 29.

Please refer to note 7.2 in the Annual Report 2022 for an overview of the implementation of IAS 29 and the impact on the consolidated financial statements.

Management changes

On 20 January 2023, the result of the ordinary election of employee representatives to the Board of Directors was announced. Signe Adamsen (Group Workplace Development Director) and Nada Elboayadi (Head of Global Big Data) were re-elected, while Kadir Ünver (Senior Manager, Group Workplace Data & Insights) was elected and will join the Board of Directors following the Annual General Meeting on 13 April 2023. At the same time, the current employee representative, Elsie Yiu will resign.

Subsequent events

On 6 February 2023, two earthquakes caused large scale devastation and loss of thousands of lives in Turkey and Syria. ISS is one of the largest private employers in Turkey and approximately 4,500 of our placemakers service workplaces for around 100 of our customers, including two hospitals, in the impacted areas of Turkey. Tragically, three of our placemakers were fatally injured, several are in medical treatment and even more suffered loss of immediate family members and housing. Our teams on the ground in Turkey have since the earthquakes

focused on ensuring the safety and welfare of our people and customers who are facing unimaginable challenges and devastation.

ISS has not suffered material damage to its assets in Turkey. Furthermore, the impacted areas account for less than 1% of ISS's global activities and the vast majority of our customers' operations continue or will continue after repairs. Consequently, it is management's assessment that the earthquakes will not have a material impact on the results of the Group's operations and financial position in 2023.

Other than set out above or elsewhere in this H2 interim report, we are not aware of events subsequent to 31 December 2022, which are expected to have a material impact on the Group's financial position.

Conference call

A conference call will be held on 23 February 2023 at 10:00 am CET. Presentation material will be available online prior to the conference call.

Dial-in details:

DK: +45 78 76 84 90

SE: +46 40 68 206 20

UK: +44 203 769 6819

US: +1 646 787 0157

PIN code for all countries: 283234

Link: <https://issworld.eventcdn.net/events/annual-report-2022>

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, Global Press & Media Relations

Phone: +45 51 71 43 68

E-mail: kle@iss.biz



About ISS

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.

Excerpt from consolidated financial statements

Primary Statements

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The following full year consolidated statements of profit or loss, cash flows and financial position has been retrieved from the audited consolidated financial statements included in the Annual Report 2022, which in note 8.1 includes a description as to the basis of preparation and should be read in conjunction with the Annual Report 2022. In addition, the following statements of profit and loss and cash flows includes unaudited H2 2022 and H2 2021 financial figures summarised based on the Group's accounting policies for recognition, measurement and classification of profit or loss and cash flows captions.

Condensed consolidated statement of profit or loss

1 July – 31 December

DKK million	H2 2022	H2 2021	FY 2022	FY 2021
Revenue	39,595	36,470	76,538	71,363
Employee costs	(24,439)	(23,150)	(48,329)	(46,369)
Consumables	(3,590)	(2,753)	(6,598)	(5,020)
Other operating expenses	(9,043)	(8,358)	(17,247)	(16,438)
Depreciation and amortisation	(737)	(982)	(1,517)	(1,760)
Operating profit before other items	1,786	1,227	2,847	1,776
Other income and expenses, net	(123)	(2)	57	439
Goodwill impairment	-	-	-	(450)
Amortisation/impairment of brands and customer contracts	(34)	(33)	(69)	(64)
Operating profit	1,629	1,192	2,835	1,701
Financial income	72	27	207	41
Financial expenses	(304)	(394)	(596)	(697)
Profit before tax	1,397	825	2,446	1,045
Income tax	(189)	(408)	(441)	(509)
Net profit from continuing operations	1,208	417	2,005	536
Net profit from discontinued operations	9	(31)	131	101
Net profit	1,217	386	2,136	637
Attributable to:				
Owners of ISS A/S	1,175	370	2,058	615
Non-controlling interests	42	16	78	22
Net profit	1,217	386	2,136	637

Condensed consolidated statement of cash flow

1 July – 31 December

DKK million	H2 2022	H2 2021	FY 2022	FY 2021
Operating profit before other items	1,786	1,227	2,847	1,776
Operating profit before other items from discontinued operations	2	33	13	37
Depreciation and amortisation	737	982	1,517	1,760
Non-Cash items related to hyperinflation	(30)	-	(51)	-
Share-based payments	36	27	80	62
Changes in working capital	161	(558)	444	1,056
Changes in provisions, pensions and similar obligations	(229)	(57)	(665)	(435)
Other expenses paid	(28)	(42)	(31)	(74)
Interest received	52	26	87	40
Interest paid	(319)	(308)	(486)	(473)
Income tax paid	(189)	(304)	(422)	(528)
Cash flow from operating activities	1,979	1,026	3,333	3,221
Acquisition of businesses	(301)	(505)	(325)	(526)
Divestment of businesses	(12)	302	587	1,191
Acquisition of intangible assets and property, plant and equipment	(419)	(316)	(809)	(628)
Disposal of intangible assets and property, plant and equipment	9	33	30	42
Acquisition of financial assets, net	(19)	(20)	(29)	(6)
Cash flow from investing activities	(742)	(506)	(546)	73
Repayment of bonds	-	(1,577)	-	(1,577)
Repayment of lease liabilities	(431)	(479)	(865)	(947)
Other financial payments, net	70	166	(58)	(472)
Transaction with non-controlling interests	(1)	179	(7)	164
Cash flow from financing activities	(362)	(1,711)	(930)	(2,832)
Total cash flow	875	(1,191)	1,857	462
Cash and cash equivalents at start of period	4,506	4,488	3,428	2,742
Total cash flow	875	(1,191)	1,857	462
Foreign exchange adjustments	(167)	131	(71)	224
Cash and cash equivalents at 31 December	5,214	3,428	5,214	3,428
Free cash flow	1,090	90	1,734	1,735

Condensed consolidated statement of financial position

At 31 December

DKK million	H1 2022	H1 2021	2022	2021
Assets				
Intangible assets	23,696	22,189	23,920	22,739
Right-of-use assets	2,334	2,296	2,403	2,445
Property, plant and equipment	923	980	917	931
Deferred tax assets	936	899	912	790
Other financial assets	508	323	512	457
Non-current assets	28,397	26,687	28,664	27,362
Inventories	200	167	231	177
Trade receivables	11,068	9,828	10,996	10,406
Tax receivables	142	171	173	185
Other receivables	1,875	1,694	1,695	1,582
Cash and cash equivalents	4,506	4,488	5,214	3,428
Assets held for sale	32	1,372	32	515
Current assets	17,823	17,720	18,341	16,293
Total assets	46,220	44,407	47,005	43,655
Equity and liability				
Equity attributable to owners of ISS A/S	9,185	6,817	10,156	7,583
Non-controlling interests	655	25	659	206
Total equity	9,840	6,842	10,815	7,789
Loans and borrowings	15,959	17,194	15,945	16,094
Pensions and similar obligations	1,214	1,467	1,185	1,351
Deferred tax liabilities	1,150	975	1,178	976
Provisions	591	294	465	755
Non-current liabilities	18,914	19,930	18,773	19,176
Loans and borrowings	853	870	963	888
Trade and other payables	6,827	5,537	6,952	5,657
Tax payables	133	124	172	174
Other liabilities	8,941	9,014	8,714	8,730
Provisions	700	1,507	606	961
Liabilities held for sale	12	583	10	280
Current liabilities	17,466	17,635	17,417	16,690
Total liabilities	36,380	37,565	36,190	35,866
Total equity and liabilities	46,220	44,407	47,005	43,655