COMPANY ANNOUNCEMENT

ANNUAL REPORT FOR THE FULL FINANCIAL YEAR 2020. ISS TODAY ANNOUNCES ITS FULL YEAR 2020 FINANCIAL RESULTS

TURBULENT 2020 CONCLUDED AS EXPECTED. RECOVERY JOURNEY HAS COMMENCED

HIGHLIGHTS

- The OneISS strategy was launched in December 2020 to sharpen the strategic focus, enhance the operating model and outline the path for ISS's short-term turnaround. The strategic agenda is developing as planned under the new Executive Group Management (EGM). Additional key external roles have been filled - a newly created Chief Digital & Technology Officer position, a Country Manager in United Kingdom & Ireland and a Country Manager in Germany.
- The key turnaround initiatives are progressing with dedicated improvement programmes to enhance performance of the specific and well-known underperforming contracts and countries. On 10 February 2021, ISS announced that it had commenced negotiations on the possible termination of the contract with the Danish Defence.
- The effects of the IT security incident have been resolved with all related costs fully recognised and with the majority paid in 2020. The restructuring efforts related to the effects of Covid-19 are on track and the associated provisions are in place. The underlying operating margin has improved sequentially each quarter since Q2 2020. ISS is poised to capitalise on the expected easing of lockdowns, supporting customers in creating the flexible, clean and safe working environments of the future.
- The financial results in H2 2020 developed as expected. Organic growth and operating margin were in line with the latest outlook. Free Cash Flow was DKK (1.8) billion for 2020 against the latest financial outlook of "around DKK (2.0) billion", and the factoring level was reduced by DKK 0.4 billion compared to the factoring level at the end of 2019. Restructuring costs and one-offs were in total DKK 3.5 billion in 2020 compared to the expectation of DKK 3.0 – 3.5 billion.
- The preliminary 2021 guidance announced on 16 December 2020 is confirmed. Uncertainty continues to be high as Covid-19 impacts activity levels in an unprecedented manner, particularly within Food services. Underpinned by the development of the underperforming countries and contracts, the turnaround targets are confirmed (entering 2023 at an operating margin above 4% and leverage below 3x EBITDA).

Jacob Aarup-Andersen Group CEO, ISS A/S, says:
"2020 was a year that will not be forgotten. The global pandemic challenged ISS, economies and businesses around the globe. Our financial performance was negatively impacted by global lockdowns and throughout these challenging times, we have focused on the safety and health of our colleagues as they made a real difference for our customers and their employees.

Towards the end of 2020, we announced our OneISS strategy to enhance execution. We have kept significant pace, fundamentally improving the operating model while managing a short-term turnaround. The pandemic has made our offerings strategically more important for our customers, and we are using our scale to leverage the increased focus on workplaces that promote health, culture and performance. With our proven leadership in cleaning, we are well positioned for a Covid-19 recovery and emerge as an even stronger business."

Financial overview	H2 2020	H2 2019	2020	2019	Q4 2020	Q3 2020
DKK million						
Revenue	34,342	40,229	69,823	77,698	17,399	16,943
Organic growth	**(9.9)%**	**8.1%**	**(6.5)%**	**7.1%**	**(11.0)%**	**(8.8)%**
Operating profit excl. restructuring and one-offs	284	2,133	322	3,687		
Operating margin excl. restructuring and one-offs	**0.8%**	**5.3%**	**0.5%**	**4.7%**		
Operating margin*	**(7.2)%**	**4.6%**	**(4.6)%**	**4.2%**		
Free Cash Flow	**(64)**	**3,012**	**(1,794)**	**366**		
Leverage (Net debt / Pro forma adj. EBITDA**)			7.3x	2.8x		

*Based on operating margin before other items
**Pro forma adjusted EBITDA excl. restructuring costs and one-offs

KEY FIGURES AND FINANCIAL RATIOS

Financials	H2 2020	H2 2019	2020	2019
Results (DKKm)				
Revenue	34,342	40,229	69,823	77,698
Operating profit before other items	(2,464)	1,849	(3,226)	3,252
Operating profit	(2,710)	1,482	(4,730)	2,522
Financial expenses, net	(253)	(376)	(542)	(703)
Net profit from continuing operations	(2,691)	661	(5,231)	1,153
Net profit from discontinued operations [2)]	173	308	36	218
Net profit	(2,518)	969	(5,195)	1,371
Cash flow (DKKm)				
Cash flow from operating activities	789	3,880	(361)	2,064
Acquisition of intangible assets and property, plant and equipment, net	(340)	(596)	(681)	(1,095)
Free cash flow	(64)	3,012	(1,794)	366
Financial position (DKKm)				
Total assets	43,605	50,061	43,605	50,061
Goodwill	19,662	21,257	19,662	21,257
Additions to property, plant and equipment	389	673	389	673
Equity	6,545	12,547	6,545	12,547
Net debt	15,802	14,730	15,802	14,730
Shares ('000)				
Number of shares issued			185,668	185,668
Number of treasury shares			970	970
Average number of shares (basic)			184,698	184,692
Average number of shares (diluted)			185,136	186,000

Ratios	H2 2020	H2 2019	2020	2019
Financial ratios				
Operating margin [1)]	(7.2)%	4.6%	(4.6)%	4.2%
Equity ratio	15.0%	25.1%	15.0%	25.1%
Organic growth	(9.9)%	8.1%	(6.5)%	7.1%
Acquisitions and divestments, net	(1.8)%	(1.9)%	(1.8)%	(2.2)%
Currency adjustments	(2.9)%	0.9%	(1.8)%	0.7%
Total revenue growth	(14.6)%	7.3%	(10.1)%	5.6%
Net debt / Pro forma adjusted EBITDA			-11.5x	3x
Share ratios (DKK)				
Basic earnings per share (EPS)			(28.2)	7.3
Diluted EPS			(28.2)	7.3
Basic EPS (continuing operations)			(28.4)	6.1
Diluted EPS (continuing operations)			(28.4)	6.1
Proposed dividend per share, DKK			-	-

Social data	2020	2019
Full-time employees	75%	77%
Employees end of period, number	378,946	471,056
Employee turnover	33%	35%
Customer rentention	91%	91%
Lost Time Injury Frequency	2.5	2.8
Fatalities, number	3	3

1) Based on Operating profit before other items.
2) In 2020, additional three countries were presented as discontinued operations; Portugal, Russia and Taiwan. Comparative figures are restated. In 2019, Argentina, Brazil, Brunei, Chile, the Czech Republic, Estonia, Hungary, Israel, Malaysia, the Philippines, Romania, Slovenia, Slovakia, Thailand and Uruguay are treated as discontinued operations.

STRATEGIC UPDATE

The OneISS strategy outlines the strategic direction with dual priorities, ensuring a long-term improvement of the operating model while simultaneously delivering a short-term turnaround.

The initiatives to enhance the operating model are developing as planned, with the new EGM team driving a clear cultural change, improving the balance between global and local decision-making, and building strengthened global functions to facilitate improved local execution and scalability.

In January 2021, a new Chief Information and Digital Officer was announced. Markus Sontheimer will join ISS on 1 June 2021. Markus is an experienced leader who has successfully spearheaded a number of technology transformations in the past and will join the Executive Group Management. In February 2021, Eva Wimmers was announced as the new Country Manager of Germany and a new Country Manager for UK&I has also been signed and will be announced shortly.

The strategic divestment programme is developing as planned. In Q4, ISS received approximately DKK 0.5 billion of net divestment proceeds from Brazil, Thailand and Malaysia. The divestment of another, smaller non-strategic country, Slovenia, was signed in Q4 2020. ISS continues to target approximately DKK 2 billion in additional net proceeds from the announced divestment programs.

TURNAROUND INITIATIVES

The restructuring of the underperforming contracts and countries have been structured into dedicated workstreams under clear governance and experienced management teams.

The **recovery in the UK** is progressing despite very restrictive lockdowns. A new Country Manager has been recruited and will upgrade the organisation and drive cultural change, focusing on accountability and performance. The ongoing improvement in the financial performance is driven by exits from less profitable contracts, improved key account profitability and ensuring cost efficiency gains following the implementation of the future operating model.

The **restructuring of France** is ongoing but has been disrupted by Covid-19 and nationwide lockdowns for extended periods during 2020. The organisation is currently being re-scaled and reorganised to a more centralised structure, reflecting the new business scope and operating model. The management team is also focusing on the commercial performance to support retention rates and achieve more revenue growth with existing customers.

The **Deutsche Telekom contract** is the single largest contract in the history of ISS, where ISS provides a wide service offering to approximately 9,000 sites across Germany. The contract volume and complexity has caused both operational and financial challenges. To improve both operational and financial performance, an overarching improvement programme has been established with experienced and dedicated resources to drive efficiencies, cost savings and increased customer satisfaction.

The **contract with the Danish Defence** generated a negative run-rate margin in H2 2020 with limited opportunity to optimise further. ISS has provisioned the expected cost of delivering the contractual obligations until the end of the contract. ISS has commenced negotiations on the possible termination of the contract with the Danish Defence.

Overview of turnaround initiatives and group margin drivers

CONCEPTUAL AND INDICATIVE

Margin recovery drivers	Key Development Q4 2020	Contribution to Group Margin Target (By end of 2022 vs. 0.5%[1] in 2020)	Financial progress (end of Q4 2020)
UK recovery	• Recruited new Country Manager of UK&I and part of the EGM • Ongoing efficiency improvements	+100bp (Recover to low single-digit margins)	
France recovery	• Commercial improvements to eliminate attrition and increase retention rate • Ongoing Covid-19 rescaling of the business	+40bp (Recover to low single-digit margins)	
Underperforming contracts	• Provision taken for Danish Defence contract and ongoing dialogue to exit the contract • Deutsche Telekom IT migration progressing	+100bp (Based on break-even)	
COVID-19 restructuring and revenue recovery	• Growth continues to be significantly impacted by the pandemic • Global Covid-19 related restructuring progressing	+130bp (Recover ~60% of lost revenue and payback of restructuring)	
Rest of business and new operating model	• OneISS operating model implementation ongoing	Above -20bp (Ongoing restructuring costs, investments, savings and other effects)	
Turnaround target and estimated progress		= Above 4%	

1) Before restructuring and one-offs of DKK 3.5bn in 2020

COVID-19

The escalation of Covid-19 in early 2020 coincided with a serious malware attack on ISS, making the initial management of the pandemic and its implication particularly challenging.

The recovery from the malware attack has been completed successfully, driven by the immediate establishment of a recovery organisation that has now rebuilt the IT infrastructure and significantly improved the security setup. No critical data has been compromised as a result of the attack. The total cost of the recovery and enhancement of the IT infrastructure was DKK 887 million, which are all incurred and recognised in Other income & expenses in 2020.

During the pandemic, ISS has used the disruptive business environment to get closer to all customers. ISS's services are playing an even more critical and strategic role for clients. ISS has supported businesses and employees' safety, productivity and comfort throughout the unprecedented challenges. ISS is, among others, offering tailored "back-to-work" solutions such as the distinct Pure Space product offering. Combined with global leadership in cleaning, ISS has a solid platform for capitalising on the expected business recovery during 2021.

Covid-19 has impacted ISS's customer segments and services lines contrastingly. A part of ISS's revenue continues to show resilient characteristics, while other parts have been materially impacted. Customers operating in Energy & resources, Healthcare and Public administrations generated positive organic growth in 2020 (~30% share of revenue) despite the pandemic. Other industries have declined materially. Retail, Transportation and Hotels, Leisure and Entertainment (~15% of revenue) have contributed to the majority of the negative organic growth.

ISS is currently restructuring its business to be relevant and appropriate when lockdowns and health restrictions ease. This includes significant restructuring of the cost platform, trimming of the customer portfolio and renegotiation of certain contracts, particularly within Food services. The efforts to manage the cost structure have led to a sequential improvement in the underlying operating margin since Q2 2020.

The long-term implications of Covid-19 are still highly uncertain. ISS assumes that approximately two-thirds of the lost revenue will be recaptured over a period of around two years, starting gradually from Q2 2021.

The pandemic is likely to impact the common use of workplace with increased focus on efficiency, productivity, safety and culture. ISS estimates that "work-from-home" trends may lead to a long-term volume reduction of workspace of 10-15%. This reduction is mainly driven by industries where revenue has been impacted in 2020. More resilient industries are expected to continue to grow.

The ongoing focus on workplace will also increase the strategic importance particularly of Cleaning in ensuring that employees are safe, motivated and performing their best. This increased focus will allow ISS to strengthen its collaboration with customers, leveraging the IFS and self-delivery business model.

2020 revenue development by industry and service lines

Industries

Service lines	Specialised: Healthcare, Public adm., Energy, Other.	Production-based: Pharma*, Industry & Manufacturing and F&B	Office-based: Business services & IT*	Other: Retail, Hotels, Leisure & Transportation	Organic growth (Share of revenue)
Cleaning	+	+	+	−	-1% (48%)
Food services	−	−	−	−	-30% (11%)
Technical, workplace & others	+	+	−	−	-4% (41%)
Organic growth (Share of revenue)	+2% (30%)	-3% (20%)	-9% (35%)	-18% (15%)	-6.5% (100%)

**IT adjusted for run-rate of DTAG win. Pharma adjusted for Novartis loss. Organic growth estimation is based on uniform impact from divestments and foreign exchange across service lines and industries*

BUSINESS UPDATE

ISS's commercial performance continues to be characterised by global lockdowns and health restrictions. Organic growth was (8.8)% in Q3 2020 and, as expected, deteriorated to (11.0)% in Q4 2020. The development is a result of intensified health restrictions and global lockdowns in November and December, particularly in Germany and the United Kingdom.

Key Account organic growth was (4)% in 2020 compared to organic growth of (11)% for Other customers. In H2 2020, the growth of Key Account customers was similar to other customers as the loss of Novartis by end of 2019 had a proportionally larger impact on Key Account revenue.

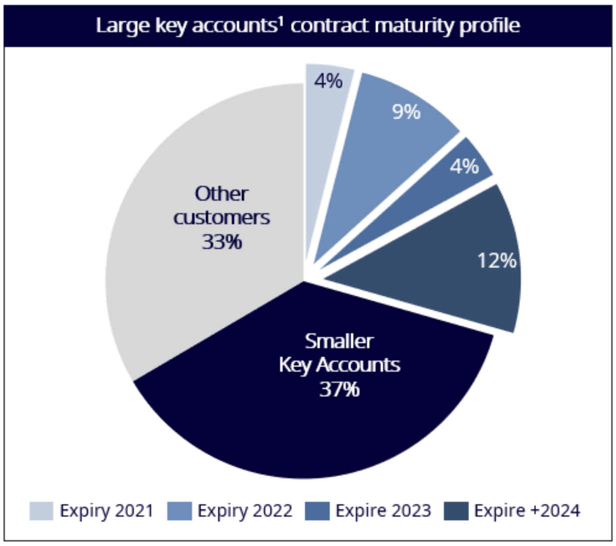
During 2020, the general bidding environment slowed down across the globe but has gradually improved towards the latter part of 2020. Contract renegotiations are now generally progressing with improved momentum of the commercial pipeline.

The retention rate for Key Accounts was 93% in 2020 (2019: 94%) and 91% for all customers (2019: 91%). Both metrics were negatively impacted by 1%-point from the expiry of the Novartis contract. The expiry profile for 2021 is light with only 4% of larger Key Accounts (revenue above DKK 200 million annually) revenue due to expire.

The previously announced win of a large industry and manufactoring customer in the Americas has been initiated, with the mobilisation and gradual ramp-up in early 2021 progressing as planned.

Key account contract development and maturity

Key developments since Q3	
New wins	• **Iberdrola S.A** (Spain) approx. DKK 100m annually
Extensions & Expansions	• **Retail and Wholesale customer,** Norway (incl. approx. DKK 75m in new revenue) • **International Beverage Manufacturer,** Netherlands • **Airport customer,** Australia • **Technology company,** 14 countries • **Technology company,** UK
Losses	• **Post Nord** (Scandinavia) approx. DKK 150m annually



(1) Global Key Accounts and Key Accounts generating revenue above DKK 200m annually

REGIONAL PERFORMANCE

The organic growth in **Continental Europe** developed from (5)% organic growth in Q3 2020 to (9)% organic growth in Q4 2020, which can be solely attributed to the development in Germany where extensive lockdowns in November and December impacted negatively. The operating profit before other items was significantly negative driven by the operational issues in Germany (Deutsche Telekom) and in France. All other main countries generated a positive Operating margin before other items, including Austria, Italy, Belgium, Spain, Switzerland and Turkey.

The organic growth in **Northern Europe** deteriorated slightly from (9)% in Q3 2020 to (10)% in Q4 2020. The development was mainly driven by the United Kingdom & Ireland where health restrictions were materially tightened during Q4. The operating profit before other items was negative, driven by the well-known operational issues in Denmark and United Kingdom. All other countries in the region generated positive operating margin despite of the pandemic.

Asia & Pacific was the best performing region from an organic growth perspective and has also consistently delivered a solid positive operating margin throughout the year. The organic growth was (5)% in Q3 2020 and (7)% in Q4 2020 as a result of full Covid-19 lockdowns in India and Indonesia. The operating margin before other items was 6.7% in H2 2020, driven by a firm and successful rescaling of the cost structure in the wake of Covid-19, leading to profitability in all larger countries in the region.

The H2 2020 development of the **Americas** region was characterised by its relatively large exposure to Food services. The Food services business has consistently been down by more than 50% since Q2 2020 as a result of an exposure to the Business Service & IT industry, where offices have been closed. The Food services development drove the organic growth of the region to (27)% in Q3 2020 and (28)% in Q4 2020. The profitability in Americas has been tightly managed by renegotiating Food services contracts, managing overhead costs and trimming the portfolio where relevant. The H2 2020 margin before other items was 4.2% despite of the significant revenue decline and the unprecedented challenges from the pandemic.

OPERATING PROFIT AND MARGIN	H2 2020		H2 2019	
DKK million				
Continental Europe	(1,687)	(12.1)%	865	5.4 %
Northern Europe	(665)	(5.9)%	630	5.0 %
Asia & Pacific	398	6.7 %	388	5.7 %
Americas	123	4.2 %	286	6.6 %
Other countries	6	2.7 %	44	9.0 %
Corporate / eliminations	(639)	(1.9)%	(364)	(0.9)%
Group	**(2,464)**	**(7.2)%**	**1,849**	**4.6 %**

Corporate costs amounted to DKK (639) million in H2 2020 compared to DKK (364) million in H2 2019. The increase is a result of investments in the capabilities of the global functions, including management changes, as well as one-off costs such as consultancy expenses related to the market- and strategy review announced as part of the OneISS strategy.

REVENUE AND GROWTH	H2 2020	H2 2019	Organic growth	Acq./div.	Currency adj.	Growth H2 2020
DKK million						
Continental Europe	13,931	15,958	(7)%	(3)%	(3)%	(13)%
Northern Europe	11,299	12,693	(9)%	-	(2)%	(11)%
Asia & Pacific	5,971	6,757	(6)%	(1)%	(5)%	(12)%
Americas	2,927	4,352	(28)%	-	(5)%	(33)%
Other countries	237	491	(43)%	(29)%	20 %	(52)%
Corporate / eliminations	(23)	(22)	-	-	-	-
Group	**34,342**	**40,229**	**(9.9)%**	**(1.8)%**	**(2.9)%**	**(14.6)%**

FINANCIAL UPDATE

The FY 2020 financial results were in line with expectations and the outlook. The underlying operating margin (excl. restructuring, one-offs and other items) has improved sequentially since Q2 2020. In H2 2020 the operating margin was 0.8% compared to 0.1% in H1 2020. This development was driven by the ongoing restructuring and scaling of the platform to absorb lower revenue.

Restructuring costs and one-offs amounted to DKK 3.5 billion for the full year, of which restructuring costs amounted to DKK 1.2 billion and one-offs amounted to DKK 2.3 billion. The vast majority of the restructuring costs is related to restructuring of countries, which are severely impacted by Covid-19. One-off items are predominantly related to write-downs and provisions for the underperforming contracts and countries (the UK, Deutsche Telekom and Danish Defence).

Overview of restructuring costs and one-offs

Overview of restructuring costs and one-offs		
Type of cost	Description	Share, %
Restructuring costs	Restructuring, contract exits, portfolio trimming and FTE scaling	
One-offs	Predominantly write-downs and provisions related to underperforming contracts and countries	

Approximately, half of the restructuring costs and one-offs are non-cash. Out of the cash-related costs, approximately DKK 650 million was paid in 2020. The remaining cash-related costs will be paid in 2021 and 2022, skewed towards 2021. H2 2020 restructuring costs amounted to DKK 1.0 billion and one-offs incurred in the period amounted to DKK 1.8 billion.

The goodwill impairment incurred in 2020 mainly relates to France where a specific business unit is impacted by operational issues. Amortisation of brands and customer contracts decreased materially as the capitalized amounts related to the acquisition of ISS World Services in 2015 are now fully amortised.

Income tax amounted to DKK 41 million in 2020 based on a non-cash impairment of a deferred tax asset in France. The cash tax payments in 2020 was around DKK (666) million compared to DKK (513) million in 2019.

The Net profit from continued operations amounted to DKK (5,231) million. The Net profit from discontinued operations amounted to DKK 36 million as a result of positive net gains from countries divested in 2020 offset by negative fair value reassessment of new countries being classified in discontinued operations.

Operating profit and special items	H2 2020	H2 2019	2020	2019
DKK million				
Operating profit excl. identified restructuring costs, one-offs and other items	**284**	**2,133**	**322**	**3,687**
Restructuring costs	(963)	(134)	(1,163)	(285)
One-off costs	(1,785)	(150)	(2,385)	(150)
Operating profit before other items	**(2,464)**	**1,849**	**(3,226)**	**3,252**
IT security incident	(108)	-	(887)	-
Other income and expenses, net	(81)	(40)	(96)	(91)
Goodwill impairment	(16)	(160)	(432)	(304)
Amortisation/impairment of customer contracts	(41)	(167)	(89)	(335)
Operating profit	**(2,710)**	**1,482**	**(4,730)**	**2,522**

CASH FLOW

Free Cash Flow in 2020 amounted to DKK (1.8) billion compared to the latest financial outlook of "around DKK (2.0) billion". The negative Free Cash Flow was a result of low underlying operating profit as well as significant cash payments related to the Malware attack, one-offs and restructuring costs, in total amounting to DKK (1.1) billion.

The factoring amount was approximately DKK 1 billion by the end of 2020, which corresponds to a reduction of around DKK 0.4 billion compared to 2019. A part of the factoring reduction relates to foreign exchange revaluation, and the cash flow impact from the factoring decrease was therefore around DKK 0.3 billion. Adjusted Free Cash Flow for 2020 thereby ended at DKK (1.5) billion in 2020. The Free Cash Flow includes additions to lease assets according to IFRS 16, which amounted to DKK 0.7 billion, while repayment of leases amounted to DKK 1.0 billion.

Excluding non-cash restructuring costs and one-offs, the working capital development impacted the cash flow by DKK (0.4) billion, driven by the reduction of factoring. The underlying working capital development was healthy as Trade receivables were reduced, including a reduction in overdue receivables of DKK 0.7 billion. The healthy cash collection is a testimony to the Key Account strategy and the benefit of working with larger and relatively more credit-worthy customers. The reduction of receivables was offset by a decrease of payables driven by lower activity levels and a higher share of self-delivery services.

Net acquisitions of intangible assets and property, plant and equipment were managed tightly and decreased materially from DKK 1.1 billion to DKK 0.7 billion.

Free Cash Flow in H2 2020 was DKK (64) million and DKK (427) million adjusted for factoring variation. The operating cash flow amounted to DKK 0.8 billion compared to DKK 3.9 billion in H2 2019. The decrease was driven by lower underlying profitability but also impacted by repayment of all Covid-19 liquidity relief schemes, which amounted to a total of DKK 1.6 billion by the end of H1 2020.

In H2 2020, additions to lease assets were equal to repayment of leases, both amounting to approximately DKK 0.5 billion.

CAPITAL STRUCTURE

ISS has stabilised the financial platform with underlying profitability improvement, improving underlying free cash flow and a very solid liquidity position.

Total readily available liquidity at 31 December 2020 was around DKK 14 billion with no material repayments before 2024. There are no financial covenants in the debt portfolio.

In H2 2020, the Net debt decreased by approximately DKK 0.6 billion from DKK 16.4 billion by the end of H1 2020 to DKK 15.8 billion by the end of 2020. The improvement is a result of the slightly negative Free Cash Flow being more than offset by net proceeds from divestments.

The leverage was 7.3x on 31 December 2020 based on EBITDA adjusted for restructuring costs and one-offs. The increase in the leverage ratio compared to 30 June 2020 is a result of the decrease in adjusted EBITDA.

As communicated as part of the OneISS strategy announcement, no dividends will be paid before the leverage turnaround target below 3x pro forma adjusted EBITDA is achieved.

FREE CASH FLOW	H2 2020	H2 2019	2020	2019
DKK million				
Cash flow from operating activities	789	3,880	(361)	2,064
Acquisition of intangible assets and property, plant and equipment	(330)	(592)	(712)	(1,133)
Disposal of intangible assets and property, plant and equipment	(10)	(4)	31	38
Acquisition of financial assets, net [1]	(13)	(17)	(20)	(11)
Addition of right-of-use assets, net	(500)	(255)	(732)	(592)
Free cash flow	**(64)**	**3,012**	**(1,794)**	**366**
[1] Excluding investments in equity-accounted investees				
Factoring variation	(363)	465	301	1,255
Free cash flow (adjusted)	**(427)**	**3,477**	**(1,493)**	**1,621**

OUTLOOK

Based on the development since the launch of the OneISS strategy, and the ongoing recovery of the underperforming contracts and countries, ISS confirms the preliminary guidance for 2021.

Global uncertainties remain significant as governments across the globe continue to change restrictions and lockdowns in the fight against Covid-19. Consequently, activity levels within ISS's core services continue to be impacted. The outlook is consequently communicated in open-ended ranges reflecting the elevated uncertainty.

Organic Growth is expected to be positive (2020: (6.5)%) with continued underlying growth but with high uncertainty related to the impact from Covid-19. Revenue in Q1 2021 is expected to be significantly impacted by restrictions and lockdowns, leading to negative growth in line with H2 2020. The underlying assumption for the outlook is to gradually recover part of the revenue lost due to Covid-19 over some years, starting from Q2 2021. As part of the Covid-19 restructuring efforts, ISS has trimmed the customer portfolio, which is expected to negatively impact the revenue growth by around 1%-point.

Divestments and acquisitions completed by 14 February 2021 (including in 2020) are expected to have a negative impact on revenue growth in 2021 of 0-1%-point. Countries to be divested continue to be reported as discontinued operations and will not impact revenue growth upon divestment. Based on the current exchange rates, a negative impact on revenue growth of 1-2%-points is expected in 2021 from the development of foreign exchange rates.

Operating Margin is expected to be above 2% (2020: (4.6)%). The main drivers of the improvement are a significant reduction in restructuring costs and one-offs, the ongoing recovery of the underperforming contracts and countries and, finally, improved operational results on the back of the restructurings initiated in 2020 in response to Covid-19.

Free Cash Flow is expected to be slightly positive (2020: DKK (1.8) billion) despite material cash payments related to restructuring costs recognised in 2020. The factoring level is expected to increase slightly, predominately related to the launch of the IFS contract with a large American customer in early 2021. The factoring level is still expected to end at a level lower than the level realised by the end of 2019.

TURNAROUND TARGETS

As part of the launch of OneISS strategy in December 2020, ISS has cancelled the specific medium-term targets to focus on the short-term recovery of the business. The new turnaround targets – which are outlining a healthy recovery with focus on profitability and cash generation – are confirmed:

- Operating margin above 4% as run-rate when entering 2023
- Net Debt / Pro Forma Adjusted EBITDA to be reduced to below 3x by the end of 2022
- Positive Free Cash Flow in 2021, improving strongly in 2022

The divestment programme is expected to generate total net proceeds of DKK 2 billion in 2021 and 2022. With the launch of OneISS, three new countries were added and revenue of DKK 870 million was reclassified to discontinued operations. In addition, business units included in continuing operations and generating revenue of DKK 4 billion are part of the divestment programme.

Overview of financial outlook

	2021	Turnaround targets
Organic growth	Positive	
Operating margin*	Above 2%	Above 4% as run-rate entering 2023
Free Cash Flow	Slightly positive	Strongly improving in 2022
Leverage		To below 3x EBITDA in 2022

*Based on operating profit before other items

The effective tax rate has historically been disclosed based on Profit before tax adjusted for amortisations and impairments. In the future, ISS will only report the Income Statement including amortisations and impairments, which may impact the ratio. The change is expected to be relatively small as amortisations of brands and customer contracts are expected to be modest going forward.

This outlook should be read in conjunction with "Forward-looking statements", page 11 of the 2020 Annual Report

OTHER

ELECTION OF BOARD MEMBERS AT THE ANNUAL GENERAL MEETING 2020

As announced on 7 October 2020, the current Chair of the Board of Directors, Lord Allen of Kensington, will not seek re-election at the 2021 Annual General Meeting by which time he will have served for more than eight years. The Board announced on 7 December 2020, the nomination of Niels Smedegaard as the new Chair of the Board of Directors for election at the Annual General Meeting in April 2021.

Board member Claire Chiang has also decided not to seek re-election at the 2021 Annual General Meeting.

MANAGEMENT CHANGES

On 18 May 2020, Jacob Aarup-Andersen was announced as new Group CEO. Jacob Aarup-Andersen took office on 1 September 2020.

As part of the OneISS strategy announcement on 16 December 2020, a new strengthened Executive Group Management team (EGM) was announced comprising a mix of seasoned internal talents and external additions with diverse backgrounds, broad expertise and new capabilities to deliver the OneISS strategy and transformation. At the same time, Kasper Fangel was appointed new Group CFO and Pierre-Francois Riolacci was appointed CEO Europe and will together with Jacob Aarup-Andersen, form the management registered with the Danish Business Authority.

SUBSEQUENT EVENTS

Other than as set out above or elsewhere in this H2 interim report, we are not aware of events subsequent to 31 December 2020, which are expected to have material impact on the business.

CONFERENCE CALL DETAILS

A conference call will be held on 25 February 2021 at 10:00 am CET. Presentation material will be available online prior to the conference call.

Dial-in details:
DK: +45 7876 8490

SE: +46 8 1241 0952

UK: +44 203 7696 819

US: +1 646 787 0157

PIN Code for all countries: 283234

Link: https://streams.eventcdn.net/iss/2020ar/

For investor enquiries:
Michael Bjergby, Head of Group Investor Relations
Phone: +45 31 37 41 71
E-mail: Mbb@iss.biz

Louisa Baruch Larsson, Senior IR Manager
Phone: +45 38 17 63 38
E-mail: lbl@iss.biz

For media enquiries:
Kenni Leth, Director, Corporate PR & Media
Phone: +45 51 71 43 68
E-mail: Kenni.Leth@group.issworld.com

ABOUT ISS

ISS is a leading workplace experience and facility management company. 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 2020, ISS Group's global revenue amounted to around DKK 70 billion. For more information on the ISS Group, visit www.issworld.com

EXCERPT FROM CONSOLIDATED FINANCIAL STATEMENTS

PRIMARY STATEMENTS

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 2020, which in note 7.3 includes a description as to the basis of preparation, and should be read in conjunction with the annual report 2020. In addition, the following statements of profit and loss and cash flows includes unaudited H2 2020 and H2 2019 financial figures summarised based on the groups accounting policies for recognition, measurement and classification of profit or loss and cash flows captions.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

1 July – 31 December

DKK million	H2 2020	H2 2019	FY 2020	FY 2019
Revenue	**34,342**	**40,229**	**69,823**	**77,698**
Staff costs	(22,174)	(24,696)	(46,082)	(48,937)
Consumables	(2,601)	(3,857)	(5,671)	(7,553)
Other operating expenses	(10,999)	(8,984)	(19,456)	(16,355)
Depreciation and amortisation [1)]	(1,032)	(843)	(1,840)	(1,601)
Operating profit before other items	**(2,464)**	**1,849**	**(3,226)**	**3,252**
Other income and expenses, net	(189)	(40)	(983)	(91)
Goodwill impairment	(16)	(160)	(432)	(304)
Amortisation/impairment of brands and customer contracts	(41)	(167)	(89)	(335)
Operating profit	**(2,710)**	**1,482**	**(4,730)**	**2,522**
Financial income	31	16	59	39
Financial expenses	(284)	(392)	(601)	(742)
Profit before tax	**(2,963)**	**1,106**	**(5,272)**	**1,819**
Income tax	272	(445)	41	(666)
Net profit from continuing operations	**(2,691)**	**661**	**(5,231)**	**1,153**
Net profit from discontinued operations	**173**	**308**	**36**	**218**
Net profit	**(2,518)**	**969**	**(5,195)**	**1,371**
Attributable to:				
Owners of ISS A/S	(2,523)	960	(5,205)	1,350
Non-controlling interests	5	9	10	21
Net profit	**(2,518)**	**969**	**(5,195)**	**1,371**

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

Note: See Annual Report 2020 for details and notes

CONSOLIDATED STATEMENT OF CASH FLOWS

1 July – 31 December

DKK million	H2 2020	H2 2019	2020	2019
Operating profit before other items	(2,464)	1,849	(3,226)	3,252
Operating profit before other items from discontinued operations	44	82	70	127
Depreciation and amortisation	1,039	851	1,855	1,617
Share-based payments	25	(39)	27	18
Changes in working capital	1,681	1,211	951	(2,019)
Changes in provisions, pensions and similar obligations	1,431	302	1,512	225
Other expenses paid	(305)	(6)	(441)	(16)
Interest received	31	29	71	45
Interest paid	(281)	(388)	(514)	(672)
Income tax paid	(412)	(11)	(666)	(513)
Cash flow from operating activities	**789**	**3,880**	**(361)**	**2,064**
Acquisition of businesses	1	-	(102)	(75)
Divestment of businesses	510	788	505	691
Acquisition of intangible assets and property, plant and equipment	(330)	(592)	(712)	(1,133)
Disposal of intangible assets and property, plant and equipment	(10)	(4)	31	38
Acquisition of financial assets, net	(31)	(31)	(48)	(51)
Cash flow from investing activities	**140**	**161**	**(326)**	**(530)**
Proceeds from bonds	3,694	-	3,694	3,695
Repayment of bonds	(2,234)	(6,717)	(2,234)	(6,717)
Repayment of lease liabilities	(515)	(545)	(1,019)	(1,080)
Other financial payments, net	(2,657)	(223)	662	(337)
Dividends paid to shareholders	-	-	-	(1,422)
Dividends paid to non-controlling interests	-	(9)	-	(10)
Cash flow from financing activities	**(1,712)**	**(7,494)**	**1,103**	**(5,871)**
Total cash flow	**(783)**	**(3,453)**	**416**	**(4,337)**
Cash and cash equivalents at start of period	3,588	6,028	2,670	6,834
Total cash flow	(783)	(3,453)	416	(4,337)
Foreign exchange adjustments	(63)	95	(344)	173
Cash and cash equivalents at 31 December	**2,742**	**2,670**	**2,742**	**2,670**
Investments in equity-accounted investees*	18	14	28	40
Addition of right-of-use assets	(500)	(255)	(732)	-592
Free cash flow	**(64)**	**3,012**	**(1,794)**	**366**

*Included in Acquisition of financial assets, net

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DKK million	2020	2019
Assets		
Intangible assets	22,518	24,565
Property, plant and equipment and leases	3,546	4,472
Deferred tax assets	818	662
Other financial assets	354	336
Non-current assets	**27,236**	**30,035**
Inventories	175	275
Trade receivables	9,861	12,085
Tax receivables	163	87
Other receivables	1,567	3,103
Cash and cash equivalents	2,742	2,670
Assets held for sale	1,861	1,806
Current assets	**16,369**	**20,026**
Total assets	**43,605**	**50,061**
Equity and liability		
Equity attributable to owners of ISS A/S	6,516	12,523
Non-controlling interests	29	24
Total equity	**6,545**	**12,547**
Loans and borrowings	17,345	16,308
Pensions and similar obligations	1,507	1,259
Deferred tax liabilities	1,022	1,344
Provisions	624	258
Non-current liabilities	**20,498**	**19,169**
Loans and borrowings	1,298	1,197
Trade and other payables	5,083	7,034
Tax payables	142	276
Other liabilities	7,899	8,625
Provisions	1,302	308
Liabilities held for sale	838	905
Current liabilities	**16,562**	**18,345**
Total liabilities	**37,060**	**37,514**
Total equity and liabilities	**43,605**	**50,061**