

ANNUAL REPORT 2016

ISS GLOBAL A/S

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Annual report
1 January – 31 December 2016

Approved at the annual general meeting
on 31 March 2017

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ISS Global A/S - an integral part of the ISS A/S Group

ISS Global A/S is an indirectly, wholly owned subsidiary of ISS A/S, an international provider of facility services, listed on Nasdaq Copenhagen. ISS Global A/S owns – directly or indirectly – the ISS Group's operating companies (together referred to as "ISS", "the Group" or "the ISS Global Group") and operates as the ISS Group's internal bank. ISS Global A/S therefore holds the ISS Group's external funding.

ISS Global A/S is an integral part of the ISS A/S Group. Thus, operating, financing and investing activities are managed for the ISS A/S Group as a whole, rather than specifically for the ISS Global Group.

The management team of the ISS Global Group formally consists of the Board of Directors and the Managing Director of ISS Global A/S. Since ISS Global A/S has no operating activities independently of the ISS A/S Group, the ISS Global Group relies on the management team of ISS A/S, which is considered the ISS Global Group's key management personnel.

Due to this structure, the sections "Our business" and "Governance" of the Management review, pp. 15-33, are described in the context of the ISS A/S Group.

KEY FIGURES AND FINANCIAL RATIOS

DKK million (unless otherwise stated)	2016	2015	2014	2013	2012
INCOME STATEMENT					
Revenue	79,177	79,631	74,157	78,506	79,492
Operating profit before other items	5,113	5,112	4,676	4,757	4,820
Operating margin ¹⁾	6.5%	6.4%	6.3%	6.1%	6.1%
EBITDA	4,278	4,660	4,071	4,173	4,193
Adjusted EBITDA ¹⁾	5,764	5,814	5,379	5,519	5,652
Operating profit (adjusted) ²⁾	3,627	3,958	3,368	3,411	3,361
Operating profit	3,074	3,432	2,504	2,276	2,792
Financial income	84	68	163	290	202
Financial expenses	(556)	(730)	(1,375)	(2,035)	(2,321)
Net profit (adjusted) ³⁾	2,248	2,367	1,416	918	471
Net profit	1,824	1,915	620	(141)	(5)
CASH FLOW					
Cash flow from operating activities	2,956	3,133	2,134	1,877	1,541
Acquisition of intangible assets and property, plant and equipment, net	(695)	(808)	(751)	(756)	(736)
Cash conversion	97%	99%	99%	100%	102%
FINANCIAL POSITION					
Total assets	43,441	44,170	41,932	45,907	46,832
Goodwill	17,537	17,969	18,328	18,813	21,217
Additions to property, plant and equipment	647	746	691	750	786
Total equity (attributable to the owner of Global A/S)	2,078	2,981	2,769	2,147	3,646
Equity ratio	4.8%	6.7%	6.6%	4.7%	7.8%
Net debt	14,863	14,621	14,751	16,914	19,023
EMPLOYEES					
Number of employees end of period	494,038	504,650	510,812	533,397	534,154
Full-time employees	74%	74%	73%	74%	73%
GROWTH					
Organic growth	3.4%	4.4%	2.5%	4.3%	1.7%
Acquisitions and divestments, net	(1)%	(1)%	(6)%	(2)%	(2)%
Currency adjustments ⁴⁾	(3)%	4 %	(2)%	(3)%	2 %
Total revenue growth	(1)%	7 %	(6)%	(1)%	2 %

¹⁾ The Group uses Operating profit before other items for the calculations instead of Operating profit. Consequently, the Group excludes Other income and expenses, net, in which items that do not form part of the Group's normal ordinary operations, such as gains and losses arising from divestments, the winding up of operations, disposals of property and restructurings and acquisition-related items. Furthermore, Royalty, Goodwill impairment and Amortisation/impairment of customer contract are excluded from the calculation.

²⁾ Excluding Goodwill impairment and Amortisation/impairment of customer contracts. Previously referred to as Operating profit.

³⁾ Previously referred to as Profit before amortisation/impairment of acquisition-related intangibles.

⁴⁾ Calculated as total revenue growth less organic growth and less net acquisition/divestment growth. Currency adjustments thereby includes the effect stemming from exclusion of currency effects from the calculation of organic growth and net acquisition/divestment growth.

DEFINITIONS

ISS uses various key figures, financial ratios (including alternative performance measures (APMs)) and non-financial ratios, all of which provide our stakeholders with useful and necessary information about the Group's financial position, performance and development in a consistent way. In relation to managing the business, achieving our strategic goals and ultimately creating value for our shareholders, these measures are considered essential.

FINANCIAL RATIOS

Acquisitions, %

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

¹⁾ Revenue from acquired businesses is based on management's expectations at the acquisition date.

Adjusted EBITDA

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

Cash conversion, %

$$= \frac{(\text{Operating profit before other items last twelve months (LTM)} + \text{Changes in working capital LTM}) \times 100}{\text{Operating profit before other items LTM}}$$

Divestments, %

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

¹⁾ Revenue from divested businesses is based on estimated or actual revenue where available at the divestment date.

EBITDA

$$= \text{Operating profit} + \text{Depreciation and amortisation} + \text{Goodwill impairment} + \text{Amortisation/impairment of customer contracts}$$

Equity ratio, %

$$= \frac{\text{Total equity attributable to the owner of ISS Global A/S} \times 100}{\text{Total assets}}$$

Net debt

$$= \text{Non-current and current loans and borrowings} \\ - \text{Receivables from companies within the ISS Group} \\ - \text{Securities} - \text{Cash and cash equivalents} \\ - \text{Positive fair value of derivatives}$$

Operating margin, %

$$= \frac{\text{Operating profit before other items} \times 100}{\text{Total revenue}}$$

Organic growth, %

$$= \frac{(\text{Revenue current year} - \text{comparable revenue}^{1)} \text{ prior year}) \times 100}{\text{Comparable revenue}^{1)} \text{ prior year}}$$

¹⁾ Comparable revenue implies the exclusion of changes in revenue attributable to businesses acquired or divested and the effect of changes in foreign exchange rates. In order to present comparable revenue and thereby organic growth excluding any effect from changes in foreign currency exchange rates, comparable revenue in the prior year is calculated at the subsequent year's foreign currency exchange rates. Acquisitions of businesses are treated as having been integrated into ISS upon acquisition, and ISS's calculation of organic growth includes changes in revenue of these acquired businesses compared with revenue expectations at the date of acquisition.

Total revenue growth, %

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

NON-FINANCIAL RATIOS

Customer Net Promoter Score (cNPS)

Measures the loyalty of our customers through a direct question of how likely the customer is to recommend ISS to others as a business partner.

Employee Net Promoter Score (eNPS)

Measures the loyalty of our employees through a direct question of how likely the employee is to recommend ISS to others as a place to work.

Lost Time Injury Frequency (LTIF)

Measures the number of incidents classified as lost time injuries per millions of hours worked.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements, including, but not limited to, the guidance and expectations contained in the "Outlook" section on p. 6. Statements herein, other than statements of historical fact, regarding future events or prospects, are forward-looking statements. The words "may", "will", "should", "expect", "anticipate", "believe", "estimate", "plan", "predict", "intend" or variations of these words, as well as other statements regarding matters that are not historical fact or regarding

future events or prospects, constitute forward-looking statements. ISS has based these forward-looking statements on its current views with respect to future events and financial performance. These views involve a number of risks and uncertainties that could cause actual results to differ materially from those predicted in the forward-looking statements and from the past performance of ISS. Although ISS believes that the estimates and projections reflected in the forward-looking statements are reasonable, they may prove materially

incorrect, and actual results may materially differ, e.g. as the result of risks related to the facility service industry in general or ISS in particular including those described in this report and other information made available by ISS. As a result, you should not rely on these forward-looking statements. ISS undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.

OUTLOOK

OUTLOOK 2017

In 2017, we will continue to focus on the implementation of the ISS Way strategy, including the roll out of our strategic GREAT initiatives focusing on investment in leadership, optimisation of our customer base, fit-for-purpose organisational structure, IFS, and group-wide excellence. Moreover, we will maintain our focus on key accounts, ensuring that the benefits of volumes, concepts and talent materialise at our customers' sites.

Through these efforts we expect to realise tangible operational and financial improvements, in both the short and medium term. We remain focused on delivering:

1. Resilient organic growth
2. Improving operating margin
3. Strong cash conversion

For 2017 specifically:

Organic growth is expected to be 1.5%-3.5%. This reflects our expectation of continued strong growth in IFS, driven by both expansion of existing customer relationships and new customer wins. The negative impact from Australian contract losses during 2016 and Brazilian contract exits will continue in 2017, particularly in the first half of the year. In addition, we are mindful of the increased uncertainty posed by Brexit in the UK and levels of unrest in Turkey. Outside of Brazil, we anticipate good growth from emerging markets in both Latin America and Asia.

Operating margin is expected to be above the 2016 margin of 6.46%, as a result of our continued focus on sustainable margin

OUTLOOK 2017

Organic growth	1.5%-3.5%
Operating margin	> 6.46%
Cash conversion	> 90%

OUTLOOK 2016 – FOLLOW UP

	Annual report 2015	Q2 2016	Realised 2016
Organic growth	2%-4%	2.5%-4.0%	3.4%
Operating margin	> 5.7%	> 6.4%	6.5%
Cash conversion	> 90%	> 90%	97%

improvement and selective growth criteria. The improvement will be supported by ongoing strategic initiatives on procurement, customer segmentation, organisational structure and Business Process Outsourcing (BPO).

Cash conversion will continue to be a priority in 2017, as it has been historically, and we expect cash conversion to remain above 90%.

The outlook should be read in conjunction with "Forward-looking statements" on p. 5 and our exposure to risk, see Our business risks on pp. 25–27.

FOLLOW UP ON OUTLOOK FOR 2016

For our three key financial objectives, organic growth, operating margin and cash conversion, ISS ended 2016 in line with the outlook announced in the interim report for Q2 2016.

GROUP PERFORMANCE

The combination of growing demand for Integrated Facility Services (IFS) and our strategic choices continued to drive both organic growth and margin improvements in 2016.

OPERATING RESULTS

Group revenue for 2016 was DKK 79.2 billion, a slight decrease compared with 2015. Organic growth was 3.4%, while the impact from currency effects and acquisitions and divestments, net, reduced revenue by 3% and 1%, respectively.

Organic growth was mainly driven by good performances in emerging markets as well as contract launches and strong demand for IFS, projects and non-portfolio work in the Continental Europe and Northern Europe regions as well as in the USA. Our IFS business continued to grow and remained a focus point for the Group. All regions delivered positive organic growth rates with the UK, Turkey, Denmark and the USA as the principal drivers, although we experienced difficult market conditions in certain European countries and notable negative organic growth in Australia due to downsizing and contract losses and in Brazil due to contract exits as part of the structural adjustments of our business platform.

Operating profit before other items amounted to DKK 5,113 million in 2016 for an operating

REVENUE AND GROWTH

DKK million	Growth components					
	2016	2015	Growth	Organic	Acq./div.	Currency
Continental Europe	30,095	29,955	0 %	3 %	(1)%	(2)%
Northern Europe	26,515	27,256	(3)%	3 %	(0)%	(6)%
Asia & Pacific	14,606	14,582	0 %	2 %	(0)%	(2)%
Americas	7,885	7,770	1 %	6 %	0 %	(5)%
Other countries	104	113	(8)%	(4)%	-	(4)%
Corporate / eliminations	(28)	(45)	38 %	-	-	-
Group	79,177	79,631	(1)%	3.4 %	(1)%	(3)%
Emerging markets	20,105	19,918	1 %	7 %	(1)%	(5)%

OPERATING PROFIT AND MARGIN

DKK million	Operating profit before other items			Operating margin	
	2016	2015	Growth	2016	2015
Continental Europe	1,823	1,750	4 %	6.1 %	5.8 %
Northern Europe	1,982	2,056	(4)%	7.5 %	7.5 %
Asia & Pacific	1,098	1,043	5 %	7.5 %	7.2 %
Americas	328	323	2 %	4.2 %	4.2 %
Other countries	(1)	(1)	-	(1.3)%	(0.8)%
Corporate / eliminations	(117)	(59)	(98)%	(0.1)%	(0.1)%
Group	5,113	5,112	0 %	6.5 %	6.4 %
Emerging markets	1,311	1,274	3 %	6.5 %	6.4 %

margin of 6.5% (2015: 6.4%), the third consecutive year of improvement in spite of the difficult market conditions in certain European countries. Margin developments were generally supported by growth and the implementation of GREAT including procurement savings and efficiency gains. From a geographic perspective, the higher operating margin was supported by good performances in Continental Europe, mainly through margin increases in Germany, the Netherlands and Spain combined with strong performances in Switzerland and Turkey.

Asia & Pacific also contributed to the improvement, driven by margin increases in Singapore and Indonesia partly due to a one-off income related to pensions. This was partly offset by a 3 bps negative Group margin impact from divestments, mainly related to the high margin call centre activities in Turkey, which were divested in November 2015, and a 1 bps currency translation effect as well as one-off costs for legal and labour-related cases. Corporate costs amounted to 0.1% of revenue (2015: 0.1%), which was in line with expectations.

We define emerging markets as comprising Asia, Eastern Europe, Latin America, Israel, South Africa and Turkey. Combined, these markets represent 25% of Group revenue and they delivered 7% organic growth. In addition to significantly contributing to the Group's organic growth, emerging markets delivered an operating margin of 6.5% in 2016 (2015: 6.4%). Emerging markets remain an important part of our strategic platform and we aim to continue to grow our footprint in these markets in a balanced and controlled manner.

Other income and expenses, net was an expense of DKK 220 million (2015: income of DKK 108 million), which was mainly the result of restructuring projects of DKK 138 million predominantly related to the implementation of GREAT in several countries, and the restructuring of the business platform in Brazil of DKK 74 million. Furthermore, losses on divestments amounted to DKK 101 million. This was partly offset by divestment gains of DKK 57 million, primarily on the security activities in Finland.

Goodwill impairment amounted to DKK 194 million (2015: DKK 273 million) principally due to a reassessment of the fair values of businesses classified as held for sale of DKK 56 million and divestments in the Northern Europe and Americas regions of DKK 138 million.

Financial income and expenses, net was an expense of DKK 472 million (2015: DKK 662 million). The reduction compared to last year was mainly due to an improvement in foreign exchange gains, net of DKK 80 million. Additionally, interest expenses, net were reduced by DKK 61 million as a result of lower interest margins combined with lower average net debt in 2016.

The effective tax rate for 2016 was 28.8% (2015: 28.2%) calculated as Income taxes (adjusted) of DKK 907 million divided by Profit before tax (adjusted) of DKK 3,155 million. The effective tax rate was positively impacted by significant non-taxable gains on divestments in 2016, largely related to the security activities in Finland. Adjusted for this, the effective tax rate was approximately 29.3%.

Net profit was DKK 1,824 million (2015: DKK 1,915 million).

BUSINESS DEVELOPMENT

Delivering **IFS** solutions to our selected customers is a key part of our strategy. The IFS share of Group revenue has grown steadily in recent years, from 34% in 2015 to 37% in 2016. The increase

was supported by the successful implementation of our strategic initiatives, once again illustrated by a number of IFS contract wins and expansions during 2016. Furthermore, as part of the GREAT initiative, we revisited the classification of customers in the UK within the technical services and security segments, which led to a one-off step-up in the share of IFS in 2016 of 1%-point.

Revenue generated from IFS in 2016 was up 14% (2015: 11%) in local currencies to DKK 29.3 billion. Growth was mainly driven by IFS contract launches and extensions, including Novartis and Swisscom in the Continental Europe region and DSB, Danske Bank and Homerton Hospital in the Northern Europe region. Global Corporate Clients contracts in general, changes in our customer mix and the successful conversion of existing single service contracts to IFS contracts also contributed to the increase.

Significant IFS contracts won in 2016 included contracts with Bombardier in North America, the Royal Mail Group, Hitachi Rail, a contract within the Transportation and Infrastructure segment in the UK, Heineken in the Netherlands, John Crane in the USA and Mitsui Fudosan Group in Taiwan. We also won contracts with Northern Health in Australia and Jakarta Airport in Indonesia. In 2016, ISS Australia lost a large contract within the hospital sector as well as two large contracts within the remote site resources segment.

We extended our existing IFS contracts with SKANSKA, SEB and ICA, the latter being one of the largest retailers in the Nordics, and expanded our contract with a large telecommunication company in France. Furthermore, we strengthened our position within the healthcare sector in Singapore by expanding a significant IFS contract with a local hospital.

Revenue generated from **Global Corporate Clients** increased 19% in 2016 (2015: 11%) in local currencies to DKK 9.0 billion and now accounts for 11% of Group revenue (2015: 10%). In 2016, we extended two of our existing Global Corporate Clients contracts within the banking sector. In addition, in 2017 we won a five year IFS contract with Shire, a global biotechnology company covering more than 40 countries with a phased-in commencement from 1 June 2017.

Our strategy is built on customer focus and the premise that investing in the engagement and capabilities of our employees will drive a positive customer experience.

In 2016, we continued to invest in our employees and sharpening our focus on talent. We introduced the ISS Leadership Competency Framework to guide all of our core people processes, accelerated our leadership training and continued to roll out training programmes, including Key Account Manager Certification (KAMC) and Service with a Human Touch. Our continuing efforts once again resulted in high **employee satisfaction** with an employee Net Promoter Score (eNPS) of 59.2, up 2.8 points from last year – the fourth consecutive year of improvement.

Read more about employee engagement and our survey results on pp. 21 and 22.

Customer satisfaction also continued to grow – our customer Net Promoter Score (cNPS) improved for the fourth consecutive year, arriving at 43.2 in 2016 (2015: 36.7). We believe the improvement reflects our continued efforts to drive our focus on key account customers. This includes the on-going implementation of account development plans, roll-out of the Key Account Manager Certification (KAMC) programme, supported by our focus on improving employee engagement.

Read more about cNPS on p. 19.

Health and safety is a top priority for us – over a period of six years, we have consistently improved our Lost Time Injury Frequency (LTIF) performance by almost 65% from the baseline figure of 13 in 2010 to 4.7 in 2016, thanks to our systematic approach to managing health and safety risks. However, sadly in 2016 we experienced six work-related fatalities associated with our operations. Our Group target is zero fatalities, so we must improve our vigilance.

Read more about our HSE initiatives on pp. 22 and 23.

CASH FLOWS AND WORKING CAPITAL

Cash conversion for 2016 was 97% (2015: 99%), driven by a strong general cash performance across the Group. Ensuring strong cash performance remains a key priority, and the result reflects our consistent efforts to ensure timely payment for work performed and focus on strong working capital processes. These efforts were once again reflected in our cash flows for the year.

Trade receivables amounted to DKK 11,307 million (2015: DKK 10,770 million), the increase relative to 2015 was mainly due to contracts won in

2016 and quarterly timing differences, partly offset by the impact from divestments.

Cash flow from operating activities was DKK 2,956 million (2015: DKK 3,133 million), negatively impacted by a higher cash outflow from changes in working capital of DKK 76 million mainly due to timing differences. Cash outflows from provisions, pensions and similar obligations of DKK 191 million marked a DKK 96 million increase, as 2015 was impacted by a positive one-off effect from pension obligations on new contracts. On the other hand, net interest paid was DKK 64 million lower than last year due to reduced margins combined with a lower average net debt in 2016.

Other expenses paid of DKK 181 million (2015: DKK 280 million) mainly included restructuring projects initiated and expensed in 2015 and 2016.

Cash flow from investing activities was a net outflow of DKK 637 million (2015: DKK 807 million). The cash outflow was mainly due to investments in intangible assets and property, plant and equipment, net, of DKK 695 million (2015: DKK 808 million), which represented 0.9% of Group revenue (2015: 1.0%). Cash inflow from the acquisition and divestment of businesses, net of DKK 32 million, mainly related to the divestment of the security business in Finland and the Group's activities in Greenland, partly offset by a prepayment related to the acquisition of Evantec in Germany and the acquisition of Apunto in Chile.

Cash flow from financing activities was a net outflow of DKK 2,470 million (2015: DKK 1,392 million). The cash outflow was primarily related to dividends paid to the shareholder ISS World Services A/S of DKK 2,185 million.

STRATEGIC ACQUISITIONS AND DIVESTMENTS

ACQUISITIONS

In November 2016, we acquired Apunto, a leading catering company in Chile with annual revenue of DKK 116 million in 2015 and more than 700 employees. The acquisition supports our strategic aim of strengthening our catering capabilities in the Americas region.

On 1 January 2017, we acquired Evantec, a technical and building services company in Germany with annual revenue of approximately DKK 352 million and about 800 employees. The acquisition is in line with our strategic priorities of further expanding our competences within technical and building services.

On 3 February 2017, we acquired SIGNAL, a Danish-based workplace management consulting firm with annual revenue of approximately DKK 30 million and 30 employees based in offices in Copenhagen and Oslo. Our customers increasingly focus on how the workplace can help them achieve their purpose. The acquisition of SIGNAL will add greater insights into how workplace design and service can come together to drive engagement. It will therefore enable us to enhance our strategically important IFS offering, and serve as a centre of global excellence in the field.

Going forward, we will continue to consider acquisition opportunities that enhance our core competencies subject to tight strategic and financial filters.

DIVESTMENTS AND DISPOSAL GROUPS

In 2016, we divested our activities in Greenland, our security activities in Finland, the remaining landscaping activities in the USA, while also making minor divestments in Norway, the Czech Republic and Slovakia. Furthermore, in December 2016 we announced the divestment of our activities in Iceland, and in January 2017 we completed the divestment of our Danish sewage and industrial service activities. All divestments support our strategy to focus on geographies and services where we see the greatest opportunities for customer growth and profitability.

Our continued strategic focus also led to three businesses being classified as held for sale at 31 December 2016, comprising businesses in the Continental Europe, Northern Europe and Asia & Pacific regions. Assets and liabilities held for sale amounted to DKK 1,625 million (2015: DKK 1,698 million) and DKK 426 million (2015: DKK 443 million), respectively.

In 2016, divestments and disposal groups resulted in a net loss before tax of DKK 250 million (2015: net gain of DKK 162 million), which comprised impairment losses on goodwill and customer contracts of DKK 194 million and DKK 12 million, respectively, as well as a net loss of DKK 44 million recognised in Other income and expenses, net.

INTANGIBLE ASSETS, GOODWILL AND GOODWILL IMPAIRMENT

Intangible assets at 31 December 2016 amounted to DKK 18,818 million and mainly comprised goodwill. At 31 December 2016, goodwill was DKK 17,537 million (2015: DKK 17,969 million) reflecting negative foreign exchange adjustments of DKK 262 million and impairment losses of DKK 194 million, which were partly off-set by additions from acquisitions of DKK 43 million, mainly Apunto in Chile.

CAPITAL STRUCTURE

The ISS Global Group is indirectly wholly owned by ISS A/S and is therefore part of the ISS A/S Group. Group Treasury manages financing activities and capital structure centrally for the ISS A/S Group as a whole. The ISS Global Group's financing activities and capital structure are not assessed independently of the ISS A/S Group.

ISS A/S's investment grade ratings, assigned by Standard and Poor's and Moody's, were upgraded in 2016 to BBB / Stable outlook and Baa2 / Stable outlook, respectively. At 31 December 2016, ISS had net debt of DKK 14,863 million (2015: DKK 14,621 million).

ISS has diversified funding through the combination of bank debt (senior unsecured facilities) and bonds issued under the EMTN programme, and with rates on a significant proportion of the debt fixed at attractive levels. Furthermore, we have no short-term maturities on external loans and borrowings.

EQUITY

At 31 December, equity was DKK 2,088 million, equivalent to an equity ratio of 4.8% (2015: 6.7%). The decrease of DKK 903 million was mainly a result of dividends paid to the shareholder of DKK 2,185 million and negative currency adjustments of DKK 475 million relating to investment in foreign subsidiaries. This was partly offset by net profit of DKK 1,824 million. The negative currency adjustments were mainly due to GBP, TRY and SEK depreciating against DKK.

SUBSEQUENT EVENTS

Acquisitions and divestments completed in the period 1 January to 28 February 2017 are described under Strategic acquisitions and divestments, see pp. 9 and 10.

On 3 February 2017, we signed an agreement to divest our security activities in Ireland. The divestment supports our strategy to focus on geographies and services where we see the greatest opportunities for customer growth and profitability.

Other than as set out above or elsewhere in this Group Annual Report, we are not aware of events subsequent to 31 December 2016, which are expected to have a material impact on the Group's financial position.

REGIONAL PERFORMANCE

CONTINENTAL EUROPE

THE MARKET AND OUR FOCUS

Most markets of this region are developed markets, but with differences from country to country in terms of IFS market maturity and macroeconomic environment. There are also developing outsourcing markets in the eastern part of the region. We hold leading market positions in several countries, including in Spain, Switzerland, France and Turkey. Key customer segments for the region are Business Services & IT, Industry & Manufacturing, Public Administration, Healthcare and Pharmaceuticals.

The year 2016 was characterised by the expansion of existing Global Corporate Clients contracts, e.g. Novartis, and several key local contracts, which supported organic growth rates for the region. Going forward, our technical services will be strengthened by the acquisition of Evantec in Germany, which enhances our technical and building services capabilities in the important German facility services market.

In 2017, we will also continue to strengthen our commercial mind-set and with recent large IFS contract wins and a strong sales pipeline across most countries, we remain positive about the future performance of the region. Focus will be on the successful transition of recent contract wins and expansions. In terms of strategy implementation through GREAT, focus will be on France and the Netherlands. In addition, we will continue the transformation of our business in the eastern part of the region by gradually reducing the proportion of customers in the public sector.

STRATEGY UPDATE

We are working across countries to share and leverage excellence from concepts within commercial, IT and back office optimisation. As part of our cost leadership initiatives, we focus on spend visibility and procurement compliance across the region. We identify best practices through benchmarking KPIs and have service experts working across borders to support local organisations. Our focus is on key accounts and we train our account managers in all aspects of the business, e.g. through our Key Account Manager Certification (KAMC) programme. In the

eastern part of the region, clustering management structures in certain countries has proven to be a key component in the development of our business with multinational customers.

FINANCIALS

Revenue amounted to DKK 30,095 million in 2016 (2015: DKK 29,955 million). Organic growth was 3%, while the impact from divestments reduced revenue by 1% and currency effects reduced revenue by 2%, mainly due to depreciation of TRY and CHF against DKK. The main contributors to the strong organic growth rate were Turkey, Switzerland, Belgium and Austria, the main drivers being volume and price increases in Turkey, project and other non-portfolio services in Switzerland and contract launches in Belgium and Austria. In addition, we saw strong growth from expansion of a Global Corporate Clients contract across the region. As a result, the IFS share of revenue grew to 34% (2015: 31%).

Operating profit before other items was up by 4% to DKK 1,823 million, resulting in an improved operating margin of 6.1% (2015: 5.8%). The higher margin was mainly supported by increases in Germany, the Netherlands and Spain combined with strong performances in Switzerland and Turkey following the good growth and focus on operational efficiencies. Furthermore, the margin was supported by the impact of our strategic initiatives including cost savings initiatives, procurement and commercial activities. The operating margin was negatively impacted by the divestment of the high margin call centre activities in Turkey in 2015 and by difficult market conditions in certain Eastern European countries.

NORTHERN EUROPE

THE MARKET AND OUR FOCUS

The markets of this region are mature, developed, very competitive and with high outsourcing rates. ISS holds a market-leading position in the Nordic countries and is recognised as a leader in the UK &

Ireland. Key customer segments are Business Services & IT, Public Administration, Industry & Manufacturing and country-specific segments such as Healthcare and Transportation & Infrastructure.

In 2016, a Nordic IFS contract was secured with PostNord, a leading retailer ICA entered into a partnership agreement with ISS Sweden, a contract was secured with the Norwegian Armed Forces, services to one of Norway's largest retailers were further expanded and in the UK we secured significant contracts with Royal Mail, Hitachi rail and a contract in the Hotel sector. We experienced significant growth in the UK Education sector following major contract wins.

In 2017, we will remain focused on our key customer segments, building the sales pipeline in these segments and aiming to further harvest from and develop our capabilities within the technical services and capital projects areas.

STRATEGY UPDATE

The strategic focus remains to leverage the strong market position, mainly through cost leadership, sharing best practices and utilising our footprint to develop solutions and concepts tailored to specific customer segments. We aim to further develop and grow our key accounts and to upskill and develop our people. The Key Account Manager Certification (KAMC) programme has been a success in terms of both developing our people and benefitting our key accounts, and KAMC will remain a priority going forward. The region successfully demonstrated how increasing focus on touchpoints with customer end-users can support customer purposes, and this will remain a strategic priority. Benchmarking and productivity will be greater priorities throughout the region for the purpose of developing our key accounts and securing the most efficient service delivery. A key priority will be to further leverage from the partnership with IBM by utilising technology for workforce planning and optimisation purposes. Finally, benefitting from both Group and regional scale to drive procurement efficiency, back office process excellence supported by the right IT strategy is expected to increase transparency in country performance. The increased transparency enables us to focus on cost leadership, i.e. delivering the best service value to our customers at the most efficient prices.

FINANCIALS

Revenue was DKK 26,515 million (2015: DKK 27,256 million). Organic growth was 3%, while currency effects reduced revenue by 6%. Organic growth was driven by contract launches in the UK,

Denmark and Norway and by strong demand for non-portfolio services. This was partly offset by negative organic growth in Sweden and Finland that was mainly due to contract downsizing, especially within the industry segment in Sweden and the technology sector in Finland and lower demand for non-portfolio services in Finland. Revenue generated from IFS increased to 44% (2015: 38%) positively impacted by a one-off step-up in revenue due to reclassification of customers in the UK of 3%-points.

Operating profit before other items was DKK 1,982 million (2015: DKK 2,056 million), for an operating margin of 7.5% (2015: 7.5%). The high stable margin was the result of a good performance across the region, supported by the focus on key account customers, margin increases in the security division in Finland and property services in Denmark. This was partly offset by operational challenges within the healthcare sector in Sweden.

ASIA & PACIFIC

THE MARKET AND OUR FOCUS

The region consists of large and relatively established markets, such as Australia, Hong Kong and Singapore, as well as developing outsourcing markets, such as China, India, Indonesia and Thailand. ISS has a strong presence in the region and holds a market-leading position in most countries despite competition from local and international players. Key customer segments are Business Services & IT, Industry & Manufacturing, Healthcare, Retail & Wholesale, Energy & Resources and Transportation & Infrastructure.

In 2016, we further strengthened our IFS offering in selected customer segments, leading to important contract wins and extensions in key customer segments. Organic growth was impacted by the contract losses and reductions within the remote site resources segment in Australia resulting from industry downsizing as well as certain losses in China and Hong Kong. We continued to implement the GREAT initiatives in the region in 2016, focusing strongly on aligning organisational structures with the global organisational blueprint, leveraging best practice commercial and business development approaches, and driving procurement excellence.

Going forward, our focus will be on strengthening our footprint by further developing our value proposition for selected customer segments, accelerating

strategy implementation through GREAT, driving in-country and contract leadership development, and further strengthening commercial and operational capabilities to drive future growth. Moreover, driving the change towards performance-based commercial models will remain in focus as markets mature and change from input-based to output-based contracts.

STRATEGY UPDATE

In 2016, we focused on cost leadership and achieved scale benefits through our focus on procurement excellence and the sustained good momentum in terms of spend visibility and contract compliance across countries. Sharing skills and best practices is done by utilising virtual teams of subject matter experts throughout the region. This was recently done successfully through the deployment of a Learning Management System between India and Pacific as well as within the Healthcare segments in Singapore and China. Sharing talent across the region and developing leadership and key account management skills through local, regional and global training programmes will remain in focus going forward.

FINANCIALS

Revenue was DKK 14,606 million (2015: 14,582 million) driven by organic growth of 2% which was offset by the negative impact from currency effects of 2%. Double-digit organic growth rates were seen in Singapore, Indonesia, India, the Philippines and Malaysia, partly due to the start-up of Global Corporate Clients contracts in countries such as Singapore, India and the Philippines. Growth in Indonesia was supported by a strong performance in the security division while Singapore benefitted from contract launches and increased demand for non-portfolio services. This was partly offset by reduced services within the remote site resource sector and the loss of a large contract within the hospital sector in Australia. Excluding Australia, organic growth was 8% in 2016. The share of revenue generated from IFS increased to 33% (2015: 30%).

Operating profit before other items grew by 5% to DKK 1,098 million for an operating margin of 7.5% (2015: 7.2%). The improvement was mainly supported by a one-off income related to pensions in Indonesia and operational efficiencies in Singapore. This was partly offset by a margin decrease in Thailand, mainly due to increased labour costs in certain business sectors and investments in operational improvements in Indonesia.

AMERICAS

THE MARKET AND OUR FOCUS

We have built a strong presence in several parts of the USA and Latin America with a developed service offering highly focused on IFS. During 2016, focus was to advance performance-based IFS solutions to large customers seeking a strategic facility services partner. In addition, focus was on further developing our industry-specific solutions to our key customer segments: Business Services & IT, Transportation & Infrastructure, Industry & Manufacturing and Public Administration.

Three topics were in special focus in 2016. Firstly, to grow ISS North America. We enhanced our IFS capabilities and market position in North America, and significant amounts of resources were allocated for this purpose. As a result, ISS North America reported the strongest organic growth since 2011. This positive and highly satisfactory performance is further proof that GREAT is working in North America and, given the market opportunities and our investments made, we remain optimistic about the future growth potential. Secondly, we initiated the restructuring of our business platform in Brazil, including contract exits from certain business segments, which will lead to a more focused and operationally efficient business. Finally, to enhance our IFS capabilities in Chile, we acquired Apunto, Chile's fourth-largest catering company, in November 2016. The integration of Apunto and our more than 700 new colleagues is progressing according to plan.

Going forward, our focus will be on further refining and advancing our IFS capabilities across the Americas whilst maintaining single service excellence. North America remains a key market and, similar to 2016, enhancing capabilities and our market position is a key priority in 2017.

STRATEGY UPDATE

Focus during 2016 was to leverage volume, concepts, and talent, by strengthening links between the region, Group level and other countries within the Group. This has led to the implementation of global concepts such as Service with a Human Touch, Key Account Manager Certification (KAMC), Insight@ISS and the transfer of talent internally across the region and from Corporate. Lastly, we continued the implementation of a regional procurement programme, leveraging know-how from roll-outs in other regions.

FINANCIALS

Revenue increased by 1% to DKK 7,885 million (2015: DKK 7,770 million). Organic growth was 6%, while the impact from currency effects reduced revenue by 5%. All countries except for Brazil delivered positive organic growth rates, with the USA, Mexico, Argentina and Chile being the main contributors. The negative organic growth in Brazil was mainly due to contract exits in certain business segments following the structural adjustments of our business platform. Organic growth was especially supported by non-portfolio services in the IFS division as well as contract start-ups in the IFS division and the aviation segment in the USA resulting in an organic growth for North America of 12%. In addition Mexico and Chile had significant new sales,

and Argentina delivered high organic growth stemming from price increases and non-portfolio services. Revenue generated from IFS increased to 36% (2015: 33%).

Operating profit before other items was DKK 328 million (2015: DKK 323 million) for an operating margin of 4.2% (2015: 4.2%). The operating margin was supported by a strong performance in the IFS division in the USA mainly due to new contracts started up in 2016 and increased demand for non-portfolio services. This was partly offset by profitability challenges in Brazil as well as costs related to low-margin contract exits in Argentina.

OUR BUSINESS MODEL AND STRATEGY

We operate in a market where customers demand that the costs associated with their buildings and facilities continually decrease while the user experience increases.

Our business model and strategy are designed to deliver on our ultimate goal of creating shareholder value on the basis of this market backdrop.

OUR VISION

“We are going to be the world’s greatest service organisation”

Our ambition encompasses more than just geographic regions or industries. We intend to be the leading service organisation overall, globally.

To achieve our vision we must meet our customers’ needs by offering reliability, responsiveness, convenience, and cost-effectiveness. In fact, we strive to go beyond that by delivering outcomes that meet their often unspoken needs, helping to create workplaces that are pleasant, safe, and nurturing for their employees and visitors, as well as for the ISS employees who represent us there. In this way, we can support our customers in achieving their goals.

OUR MISSION

The spirit of our approach is articulated in our mission statement:

Service performance facilitating our customers’ purpose through people empowerment

At its core, our mission statement tells a story of a differentiated value proposition. Not simply delivering services but providing outcomes to customers and focusing on how we support their purpose,

whether it is a hospital helping patients get well or a bank focused on providing a pleasant and safe working environment while maintaining compliance with regulatory obligations, and all in a cost effective manner. Lastly, it is a mission built on the empowerment of our more than 494,000 people globally giving them the flexibility to deliver an exceptional customer experience through an approach rooted in our values and attitude and supported by robust processes and tools.

These factors form the foundation of our value proposition at the centre of which is our self-delivery model.

THE ISS WAY

Our strategy, The ISS Way, has choice-making at its core; clarity on the customer segments we target, the services we provide and the places on the globe where we provide them. Furthermore, through consolidation and alignment of our capabilities, our strategy drives the skill and scale benefits of being a large, global organisation. The skill and scale benefits we strive to extract relate to leveraging our volume through aligning procurement and business processes, the sharing of the concepts and best practices our organisation develops and the proactive management of our comprehensive talent pool.

The advantages of driving these scale benefits are wide-ranging. Our customers increasingly demand aligned and consistent service performance across all sites. In addition to the savings procurement drives, using the same supplier across customer sites supports innovation and consistent delivery. Similarly, service performance based on international best practices is a key source of scale benefits and a driver of our value proposition by e.g. supporting customer compliance and risk management. Finally, talent management promotes a strong and uniform culture which is a core part of our value proposition and helps us attract, retain and develop the best – from the front line to the support functions.

OUR MARKET

ISS is a leader in the global USD 1 trillion outsourced facility-services market, which comprises a host of different types of customers, services and

providers. The market is both vast and diverse with customers ranging from those requiring small and ad hoc cleaning jobs driven purely by price to highly sophisticated integrated solutions for large corporations focusing on a value added offering on a global scale.

The market is evolving towards integrated services, centralisation of procurement, and a more strategic view of facility services that increases the level of value added and supports the customer's purpose. Essentially, customers are increasingly focused on securing a defined and expected output and outcome of service provision rather than stipulating input in terms of hours of service delivered.

Market growth is driven by underlying global GDP growth – including changes in business activity, employment levels and office or factory occupancy levels – as well as continued growth in outsourcing rates. Over the past decade, the overall market has grown at mid-single digit rates annually. This rate consolidates growth nearing double digits from Integrated Facility Services (IFS), which we estimate represents approximately 8% of the market, and low, single-digit growth from single services representing the rest of the market.

OUR COMPETITORS

Broadly speaking, providers of facility services can be split into three groups with varying legacies: those coming with a real estate background, those with a design and construction background, and those with a facility management background. We are seeing the delineation lines between market players with different legacies becoming blurred, certain facility services providers strengthening their IFS capabilities and the entry of new players and technologies. Our facility management legacy, our long-term commitment to IFS, and our self-delivery model gives us a keen advantage as only a few competitors yet have the scale to self-deliver IFS on a global basis.

OUR STRATEGIC MARKET CHOICES

In response to market developments and customer needs, our business model is based on taking over facility services that are non-core to our customers, thereby allowing them to concentrate on their core business.

We have chosen to focus on providing on-site facility services solutions to large and blue-chip (B-t-B) customers, with whom our value proposition resonates. The size of these customers allows us to invest in on-site key account management, which is an important factor in delivering our value proposition, as well as processes and enabling technology to meet the demands of this customer base.

Our key **customer segments** are Business Services & IT (e.g. banks), Industry & Manufacturing (e.g. the automotive industry), Public Administration (e.g. defence) and Healthcare (e.g. hospitals), which in 2016 accounted for approximately 68% of Group revenue.

Our **selected services**, illustrated below, share the following characteristics: people intensive/capex light, on-site delivery, recurring nature, suitable for integration into IFS and suitable for performance (output-based) contracts.

Cleaning, property (technical) and catering services are delivered globally as single services, multi-services or IFS solutions. Other support services, security and facility management, are principally offered as part of IFS contracts. With our strategy focused on delivering IFS solutions, the relative shares of catering and property (technical) are expected to further increase over time.

Going forward, we expect workplace management services to become an increasingly important part of our service offering. Although it will remain modest in total revenue share, workplace management

OUR SELECTED SERVICES



CLEANING 50%

- Daily office cleaning
- Industrial cleaning
- Washroom and dust control
- Specialised cleaning for nuclear plants, hospitals and food production facilities
- Periodical cleaning



PROPERTY 20%

- Building and technical maintenance
- Technical services
- Energy management
- Grounds maintenance
- Heating, ventilation and air condition



CATERING 13%

- In-house restaurants and cafés
- Hospital canteens
- Conference and meeting room services
- Vending services
- Event catering



SUPPORT 7%

- Reception services
- Hostess services
- Internal mail handling, scanning and other office logistics
- Welfare facilities
- Labour supply



SECURITY 7%

- Manned guarding
- Access control
- Consulting services



FACILITY MANAGEMENT 3%

- On-site management of facility services
- Change management
- Space management
- Risk management

services are strategic in nature as they involve advising customers on how workplace design can positively impact their employees' engagement and the user experience of their facilities. Thus, this service area will provide strong support to our overall value proposition and to the depth of our customer dialogue.

From a **geographical** perspective we want to follow our target customers and thus ensure global reach covering a very high percentage of global GDP. This is the result of our customer segment choices. We are already present in the major markets and in the vast majority of the future mega-cities and are thus focused on consolidating our positions there by increasing the penetration of our selected customer segments as well as selected market expansion when supported by customer demand.

IFS

We aim to deliver IFS across our entire business, as this is a key part of our unique value proposition and also a high growth, high margin activity. In 2016, IFS accounted for 37% (2015: 34%) of Group revenue. The increase is driven by our strategy of clearly focusing on delivering IFS solutions to selected customers. Over the past decade, it has helped us grow our IFS revenue significantly, from approximately DKK 7.6 billion in 2006 to approximately DKK 29.3 billion in 2016. We expect to grow our IFS revenue even further as we continue to implement our strategy.

Based on our ability to deliver specialised service excellence, through IFS we are able to integrate the delivery while offering the benefits of best in class service. Synergy comes from integration and is key to providing cost effective workflows and consistent high quality service. This synergy is very difficult to obtain when working with a variety of sub-suppliers, and this is why our self-delivery concept gives us a keen advantage.

ACCELERATING THE ISS WAY – GREAT

In 2016, we continued to focus on our five strategic GREAT initiatives (1) empowering people through leadership, (2) optimising our customer base, (3) ensuring fit-for-purpose organisational structures, (4) establishing broad-based IFS readiness, and (5) striving for excellence. The GREAT initiatives have been outlined in detail in previous annual reports.

Evaluating the success of our strategy and business model, and ultimately our creation of shareholder value, requires measurement of specific metrics. By using key performance indicators

(KPIs), we can systematically measure the effect of our efforts to achieve our vision.

We measure Group performance using the following six KPIs, as we believe that in combination they give us the best picture of whether we are driving the business forward in the desired direction and creating value for our shareholders. Bonus plans for the Executive Group Management are also based on these KPIs:

- Organic growth
- Operating margin
- Cash conversion
- Employee Net Promoter Score (eNPS)
- Customer Net Promoter Score (cNPS)
- Lost Time Inquiry Frequency (LTIF)

In 2016, we launched a performance management project with the objective of increasing transparency across the Group, thereby facilitating cost leadership and profitable growth initiatives leading to value creation for our shareholders. Through that project we will establish enhanced insights into the performance of our key account customers, align our management reporting to the GREAT segmented customer approach (Key Accounts, Specialised and Direct) and increase our benchmarking possibilities across the Group. The initiative will be further implemented through 2017.

EXTRACTING BENEFITS OF SKILL AND SCALE

Through GREAT, we have established a more detailed understanding of our customer base through a process of mapping. Countries representing over 70% of Group revenue have been through this process (or are underway) and, as a result, we are securing an aligned set of fit-for-purpose organisational structures designed to serve our selected customers.

Based on the progress with the GREAT transformation in our country organisations, a new Group structure took effect on 1 September 2015. First and foremost, the structural adjustments we made in the corporate and regional organisations mirror those made in the country organisations and thus better enable the exploitation of our skill and scale benefits.

GREAT enables these benefits by ensuring that the above unit organisation (from business unit to corporate head office) acts as a highway for the implementation of our strategy and is focused on supporting the delivery of our value proposition at customer sites.

Through GREAT, we develop our leadership and **talent** both on and above site. We define our target customers and establish a fit-for-purpose structure optimised to servicing these customers efficiently. GREAT also ensures that we continue to develop our ability to deliver IFS, not least by rolling out excellence in the form of **concepts**, processes and supporting technology which assists in providing a truly integrated solution. Lastly, GREAT is focused on driving out our **volume** benefits where we continue to invest in our supply chain efforts, in aligning and outsourcing back-office processes (BPO project) and in service excellence.

Outlined below are some of the highlights of our progress through GREAT during 2016 in the extraction of our benefits of skill and scale within volume, concepts and talent.



VOLUME

During the past three years, we have invested substantially in establishing a central procurement team. We have completed phases I–III of the procurement excellence programme, which primarily involved our European operations. This demonstrated that attending to procurement and alignment across countries produces considerable benefits to the Group by way of savings of DKK 450–550 million to be achieved during 2013–2019. In 2016, we initiated phase IV of the programme in Europe and increased the scope to also include the Americas and Asia & Pacific. Identified cost savings amount to a total of DKK 200–300 million, which we aim to achieve during 2016–2020. While part of the

cost savings will increase margins, a substantial amount has been and will continue to be re-invested in the business in order to maintain and strengthen our competitive strength.

In 2016, we also continued to roll out our BPO project, which covers certain finance and accounting processes and targets improved processes and cost savings. The project has now been implemented in countries accounting for approximately 40% of Group revenue, i.e. the Nordic countries, the Netherlands, Belgium and Luxembourg, Australia, Germany, Austria, Hong Kong, the UK and Switzerland. The potential for deployment of BPO in additional high labour-cost countries in Europe is currently being evaluated for potential execution in 2017. Furthermore, initiatives have been launched in 2016 to harmonise selected sub-processes across the countries that have already launched the BPO project. These initiatives will continue in 2017.

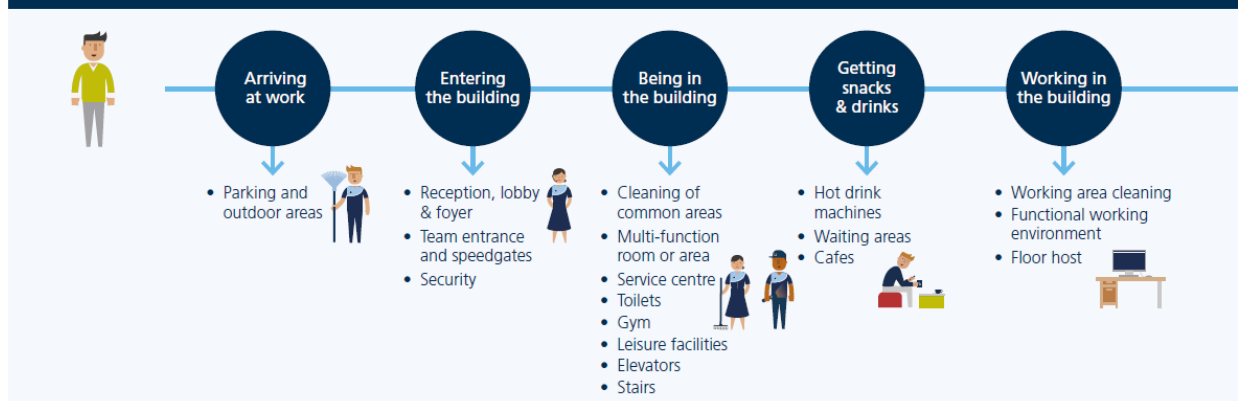


CONCEPTS

In our pursuit of excellence and to enhance our value proposition and profitability, we both drive the deployment of our existing best practices and continuously explore innovations in customer segments, services, business systems, and processes.

We spent a significant amount of time in 2016 viewing our service performance through the eyes of the user. We worked extensively with mapping the journey of the user in order to ensure that we focus on ensuring the optimal experience in each of the key touchpoints we have with our customers' end-users on a daily basis. See the illustration below.

EXAMPLE OF KEY TOUCHPOINTS WITH OUR CUSTOMERS' END-USERS



We also continue to apply a greater level of technology in our solutions. In June 2016, we signed a commercial agreement with IBM to use technology for workforce optimisation (Integration@ISS) and thereby further leverage our integrated, self-delivery capabilities. Initial pilot tests have demonstrated a potential for material productivity improvements. Further, technology will be used to transform the management of over 25,000 customer buildings around the world. This will lead to insights from sensors and devices to create more personalised, intuitive and user friendly buildings as well as support synergies through integration of services. We are currently piloting the solutions at a number of sites and expect to initiate implementation at our customer sites during 2017.

During the year, we also continued to roll out best practices with a focus on those related to our commercial, operations and people & culture functions.

Within finance excellence, we continue to drive working capital efficiency elements, which continues to have a positive effect on our cash conversion performance. The ongoing roll-out of solutions such as FMS@ISS and Insight@ISS continues to yield further transparency and financial benefits, which are key to our value proposition.



TALENT

The ingredient most essential to successfully implementing our strategy is leadership. Given our self-delivery model, our employees are our core asset. We dedicate significant resources to developing

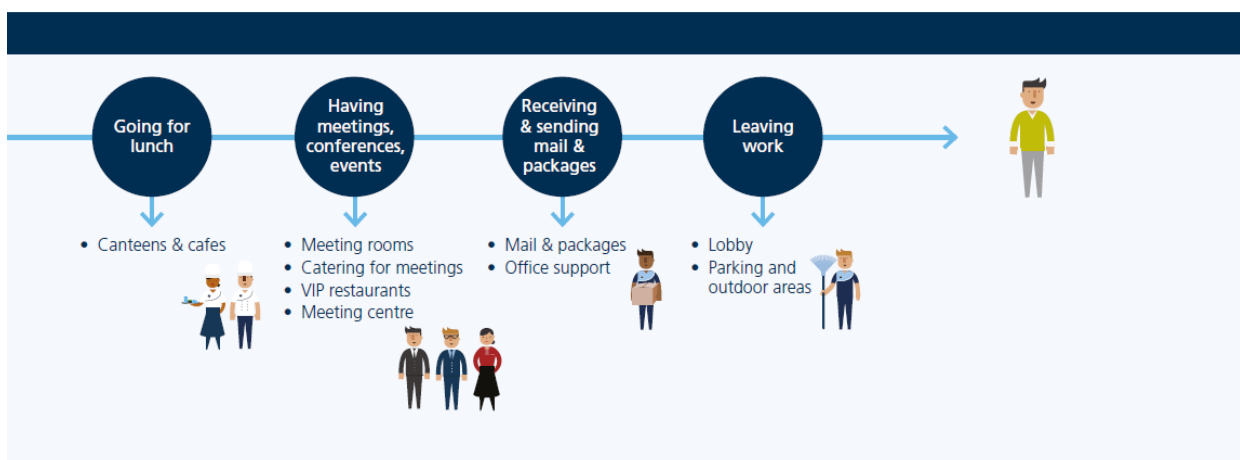
and managing them. In 2016, we continued to invest in securing and developing talent at all levels of our organisation, people with the right capabilities and mindset to deliver on our vision.

Read more about our specific people initiatives in Our people on p. 20.

We believe that strong leadership drives employee engagement, which in turn drives customer satisfaction and hence leads to improved financial results. We carried out our customer experience survey for the sixth time in 2016. We invited 6,941 customers across 44 countries to participate, and enjoyed a response rate of 82%. Responses cover close to 80% of Group revenue as we focus on inviting Global Corporate Clients, IFS and key account customers. The lead indication for the status of the customer experience is the Net Promoter Score. With a score in 2016 of 43.2 (2015: 36.7) we saw an improvement for the fourth consecutive year. We believe the improvement is a result of:

- the roll-out of our Key Account Manager Certification (KAMC) programme globally
- the further deployment of our Service with a Human Touch
- a more customer-centric approach in our key account management including our Account Development Planning programme.

We will move ahead with further measurements of our leadership through assessments and regular surveys, and through our performance in employee and customer net promoter scores and lost time injury frequency ratings, among other benchmarks.



OUR PEOPLE

Great leadership is key to bringing out the true value embedded in our strategy. It is the root of our people's engagement and the desired customer experience, and what gives us the strength that differentiates us.

UNLEASHING THE POWER OF THE HUMAN TOUCH

Our people are the true source of our competitive advantage, and the proof point of our ability to deliver on our value proposition lies in every single interaction between one of our people and a customer.

It is our fundamental belief that great service moments can be architected by the right combination of people with a common purpose and the right attitude, who are:

- inspired and supported by the right leadership;
- equipped with the right skills and tools to perform; and
- engaged and empowered to create memorable service moments.

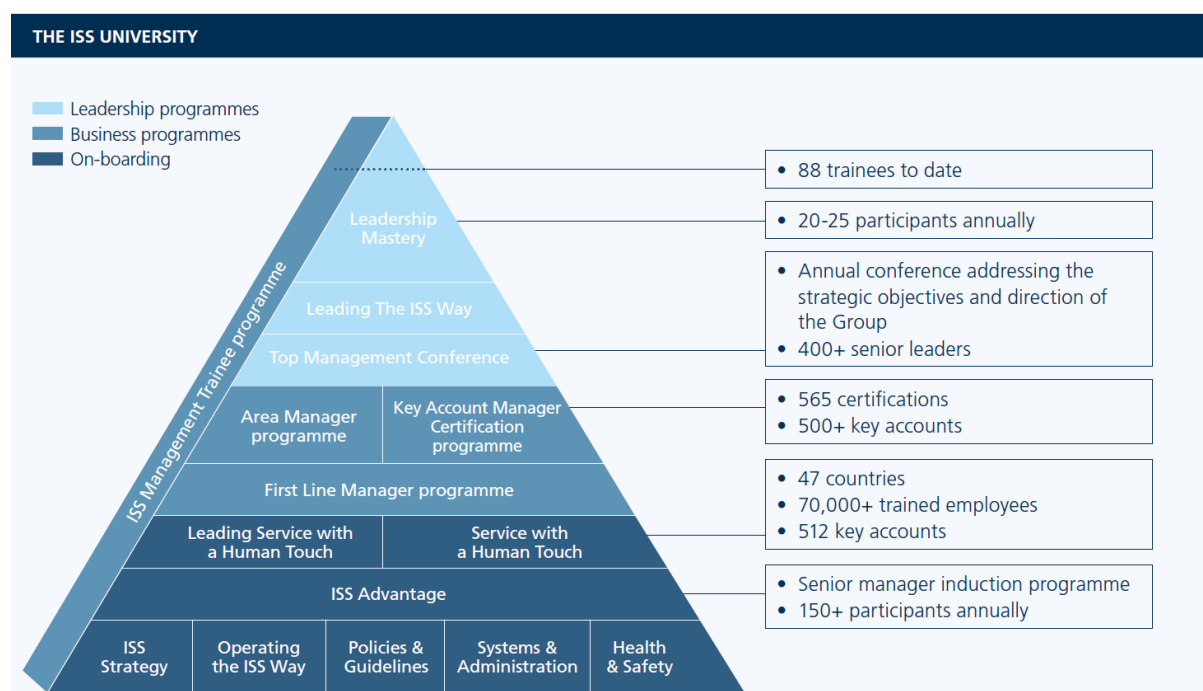
The quality and consistency of our leadership is the biggest single driver of our ability to truly unleash the Power of the Human Touch, which is why we continue to invest in developing our leaders across the Group through key Group-wide ISS University programmes.

To ensure that ISS continuously has the right organisational competencies, in 2016 we also developed the ISS Leadership Competency Framework, which provides an architecture that ensures consistency in the leadership competencies required for our leaders to succeed. The Leadership Competency Framework will guide all of our core people processes from recruitment, performance evaluation, development to succession planning, and will be rolled out to all current and future leaders in 2017.

ISS UNIVERSITY

The ISS University is the Group-wide learning academy representing our leadership development programmes which are delivered globally, regionally and locally and always to consistent standards. The ISS University is structured to enhance our leadership capability across three core dimensions:

- strategic leadership – building an intimate understanding of our strategy and our key performance drivers



- people leadership – building the self-awareness of our leaders and supporting them in leading their people
- business leadership – equipping our leaders with the business understanding and skills they need to effectively lead their specific part of the business, for example key account leaders, commercial leaders, finance leaders, etc.

A critical building block of the ISS University is our **Key Account Manager Certification (KAMC)** – a modular development programme directed at account leaders of our key accounts across the world.

Key to the successful execution of our strategy, our key account managers hold complex general management positions; are profit accountable, customer accountable and accountable for leading large and diverse teams, often across multiple customer sites.

The KAMC programme was launched late 2013, but truly went global in 2016; roll-out is well underway in Northern and Continental Europe, it went live in Asia & Pacific in May, and in the Americas in September. Focus in 2016 was to develop capabilities to further support and continue rolling out the programme in the future. At the end of 2016, 565 certifications had been issued under the programme, touching on more than 500 of our largest key accounts across the globe. Based on current plans to roll out KAMC and support its implementation, we expect to have more than 1,000 key account managers certified by the end of 2017.

LEADERSHIP PIPELINE

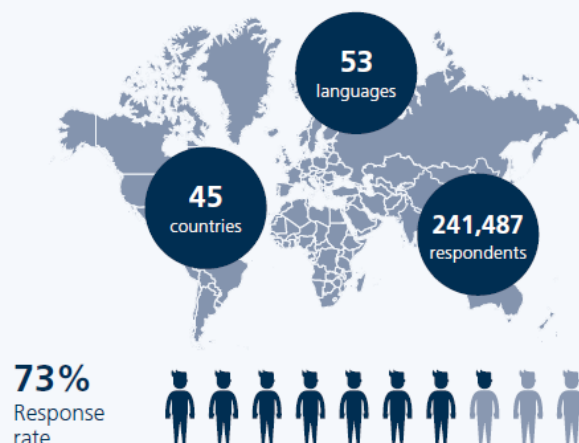
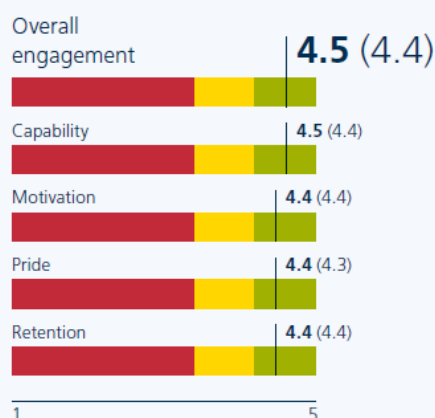
Leadership is a key strategy enabler. Ensuring that our leaders are equipped to communicate the strategy and engage the organisation is a key focus area for leadership development. Our leadership programmes provide our employees with an essential understanding of the key elements of our strategy and give them tools relevant for their day-to-day work.

In 2013, we launched the **Leadership Mastery programme**, a comprehensive five-module programme for selected executives. The focus is on personal leadership development and behaviour, developing a team as well as securing a deep understanding of our strategy and facilitating greater understanding of customers and employees. In 2015, 21 of our people graduated from the Leadership Mastery programme. In 2016, 23 people were accepted for the programme.

In parallel to the significant focus on developing current leaders, we are also looking ahead, and building our pipeline of future leaders through the **ISS Management Trainee programme**. This programme is directed at university graduates and we select the brightest and the best in a rigorous assessment process.

Our trainees go through an 18-month programme, including an international assignment, before being assigned to their first line appointment. The programme is structured in modules which first enable candidates to build an understanding of the ISS business model and strategy, before moving on to build knowledge of operational excellence and

GLOBAL EMPLOYEE ENGAGEMENT SURVEY RESULTS



basic key account management capabilities. At this stage we feel it is a good opportunity for them to embark on an international exchange to build international key account management capabilities, sharing knowledge and best practices. They then return to their home countries to conclude the programme by applying all learnings working with a specific key account.

Since starting up in Europe in 2013, the programme has gone from strength to strength, with 8 trainees employed in 2013, 11 in 2014, 33 in 2015 and 36 in 2016. To date, the retention rate has been 95%. After completing the 18-month programme, the trainees typically take up key account manager, contract manager or contract support roles. For 2017, our aim is to recruit close to 50 new trainees. The benefits of the programme are twofold; it enables us to build a sustainable talent pipeline for the future, whilst at the same time building our global employer brand in the external marketplace.

ENGAGED PEOPLE

Employee engagement is critical for our ability to serve our customers – engaged and motivated employees have a direct impact on the customer experience of our services. For this purpose we survey our employees on how engaged and motivated they are in working for ISS and, more importantly, what we can do better to drive engagement of our people.

In 2016, we carried out our fifth global employee engagement survey. The survey covered 45 countries and was conducted in 53 languages. Scope has been expanded each year since inception. In 2016, more than 300,000 employees were invited to participate, with 241,487 responding. Once again, the response rate improved, climbing to approximately 73% from 72% in 2015.

The survey revealed an overall employee engagement of 4.5 (2015: 4.4) out of a possible 5. As part of the survey, we also measure our employees' willingness to recommend ISS as an employer (eNPS). For the fourth consecutive year, the score improved, arriving at 59.2, up from 56.4 in 2015.

The conclusions to this survey led to a specific focus on the engagement of our frontline employees. As a result, we have implemented the **Service with a Human Touch programme**, which has been running since 2013. This is a key strategic game changer driving cultural change at ISS, communicating our mission and translating customer value propositions into concrete service behaviours for thousands of service professionals.

Service with a Human Touch is now operational in 47 countries, with 600 accredited trainers and more than 70,000 trained employees across 512 key accounts. We will continue the work to continuously improve engagement, which in turn increases the overall sense of purpose of our people in the delivery of our services. Furthermore, we see a clear correlation between employee engagement scores and customer satisfaction, making them key drivers of financial and operational performance.

HEALTH, SAFETY, AND ENVIRONMENT

Our concern for health, safety, and environment (HSE) and initiatives in that respect are aimed both at our employees and our customers. As a company with more than 494,000 employees globally, it is crucial for us to provide proper working conditions including safe and healthy working environments for our employees and customers in the facilities we serve.

Consistent with the ISS values, our highest priority is to protect our employees from injury. We are steadfast in our commitment to making our workplaces free of hazards. We operate under the assumption that all injuries can be prevented and that injuries are unacceptable. Our goal will always be zero injuries and zero environmental incidents.

In order to stay on course and keep HSE in constant focus, we run global HSE campaigns three times a year with changing focus points reflecting current challenges, for example driving safely, working at heights, and slips, trips and falls. In addition to the global HSE campaigns, in 2016 we continued the highly successful ISS Toolbox Talk Calendar, building on the feedback received from the initial launch in 2015. The Toolbox Talk reinforces and embeds safety behaviours as part of our safety culture. Two topics are chosen each month to inspire our operational teams to hold Toolbox talks at their sites. We have also developed and rolled out an HSE e-learning module for supervisors and frontline employees as a means of understanding the safety culture we aspire to in ISS. All of our CR and HSE initiatives and our related performance are described in our Corporate Responsibility Report 2016.

Read more at www.responsibility.issworld.com/report2016

Performance and targets for 2016 are shown below for selected employee-related HSE KPIs.

FATALITIES

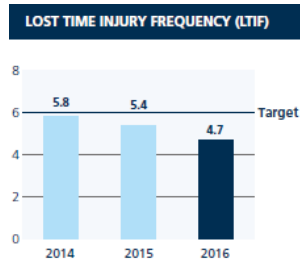
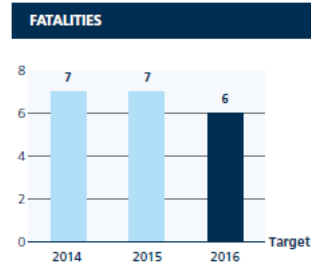
In accordance with our HSE vision, our first priority is to prevent fatalities at our workplaces. Sadly, in 2016 we experienced six work-related fatalities associated with our operations. Our Group target is zero fatalities, so we must improve our vigilance. Because the majority of our work-related fatalities in recent years have been traffic-related, our emphasis for the 2016 global safety campaign was driving safely. In view of our fleet of more than 20,000 vehicles, in 2016 we rolled out an e-learning module on driving safely to complement the ISS Driver Safety Handbook and the Driver Safety campaigns we run.

We work to make safety a common responsibility. Our policy is that management at all levels must understand their roles and responsibilities when it comes to safety.

LOST TIME INJURY FREQUENCY

We have improved our performance by almost 65% from the baseline figure of 13 in 2010 to an LTIF of 4.7 in 2016, the sixth straight year of improvement. The improvement has been driven by our systematic approach to managing HSE risks since 2010 with:

- the implementation of the Group HSE Management System;
- the implementation of the ISS Safety Rules;
- the implementation of the HSE@ISS-IT system for reporting and investigating incidents, auditing and inspections;
- our global campaigns to keep the focus on HSE; and
- the introduction of our Toolbox Talk Calendar.



CORPORATE RESPONSIBILITY (CR)

OUR APPROACH TO CR

As a global company with more than 494,000 employees, we influence the lives of many people every day through providing employment and training as well as safe and healthy work environments.

We believe that long-term sustainable business success relies on a high level of CR, as economic, social and environmental issues are inevitably interconnected. CR is therefore a fundamental part of our corporate values and strategy, and universally accepted principles on sustainable development are integral to the way we conduct our business.

CR is also becoming increasingly important for our selected customers as they strive to improve their own business performance and make a positive impact on society. Leading global companies require a consistent CR performance from their partners, and this is often a key factor in winning and retaining contracts. CR is therefore an important part of our value proposition to our customers.

We have adopted a principles-based approach to CR that contributes to sustainable development as defined by the international community. We have developed and rolled out across the Group a strategy for Health, Safety, Environment and Quality (HSEQ) and CR, which supports The ISS Way, our GREAT initiatives and the extraction of benefits of skill and scale within volume, concepts and talent.

**Volume**

By aligning procurement across countries, we ensure better control of the products and services we procure; this results in safer products, more environmentally friendly products and better control of the suppliers we use to deliver our services.

**Concepts**

In our pursuit of excellence and to enhance our value proposition to our customers, we have built an HSE value proposition to our customers. Customers require effective and credible risk management, including risks related to safety, labour conditions and influencing human rights in a positive direction. Our processes and systems within these areas allow us to provide support to our customers in managing these risks.

**Talent**

We have incorporated HSE in our training programmes Service with a Human Touch and Key Account Manager Certification (KAMC) programme, providing a better highway for the deployment of our HSE culture and processes.

OUR HSE VISION '100'

- 1:** We aim to be number 1 in our industry and recognised as an industry leader in the way we deliver Health, Safety, and Environmental performance;
- 0:** We operate with 0 fatalities in our workplaces; and
- 0:** We incur 0 serious incidents and occupational injuries at our workplaces.

STRONG COMMITMENT TO UN GLOBAL COMPACT


As a signatory and supporter of the United Nations Global Compact since its inception in 1999, we have made a strong commitment on human rights, labour rights, environmental protection and anti-corruption. We remain committed to aligning our strategy and operations with the ten Global Compact principles.

Furthermore, we respect, support and promote human rights and support the ambitions set out in the United Nations Universal Declaration of Human Rights, the Core Conventions of the International Labour Organisation and the United Nations Guiding Principles on Business and Human Rights.

TRADE UNION RELATIONS

We remain fully committed to our global agreement with the international network of national labour organisations – Union Network International (UNI) – covering our employees where UNI cooperates with local unions. We also continue to work closely with our European Works Council (EWC). We hold quarterly meetings with the steering committee and annual meetings with the entire EWC. At these annual meetings, the EWC visits our head office for three days, and we spend considerable executive management time with them to ensure alignment with our priorities and a common understanding of our strategy and the Group's direction.

OUR CORPORATE RESPONSIBILITY REPORT

 Our full CR report as per section 99a of the Danish Financial Statements Act is available at www.responsibility.issworld.com/report2016. The CR Report also serves as ISS's communication on progress in implementing the ten principles of the Global Compact.

OUR BUSINESS RISKS

At ISS, we see risk management as an important means of supporting value creation – both for us and for our customers. It is an integral part of our governance structure and of the way we do business.

As a global business, we take an active approach to risk management, ensuring that our key risks are structured, prioritised and managed at the right levels throughout the organisation. Supported by our risk governance structure, key risks are identified and reported all the way up the organisation to the Board of Directors.

Our governance structure, see p. 29.

Our business model is based on taking over facility services that are non-core to our customers. When outsourcing, customers increasingly expect risk management to be an integral part of ISS's service delivery. Further, as our services are increasingly being integrated into our customers' value streams there is an increased risk of disrupting our customers' operations if operational procedures or contract requirements are not complied with. This is for instance relevant for our customers in the banking or pharmaceutical industry, as we often manage critical infrastructure such as data centres or production facilities. Therefore, risk management at ISS is about understanding our customers' risks and supporting their compliance and risk management – just as much as it is about managing our own risks.

FOCUS IN 2016 AND 2017

With the growth in IFS revenue from Global Corporate Clients and

key accounts, we experience growing risk awareness and demand for risk transfer, operational risk management and risk control compliance from our customers. At the same time, the complexity of our service delivery is increasing, as explained above.

To support sound operational risk management and contract compliance, we have initiated the roll-out of a Contract Risk & Compliance tool for selected key accounts. By the end of 2016, the tool had been implemented for 120 accounts. The roll-out will continue during 2017.

“Through operational risk management we help ensure that our customers' critical processes run without interruption”

JEFF GRAVENHORST
Group CEO

Our customers also increasingly focus on information security and how we as their service provider comply with information security policies and other IT process and documentation standards. Our growing IFS business increasingly leads us to hold and manage data related to our customers' business, e.g. basic personal data, asset

information, manufacturing plant design and the like. Combined with our business strength within highly regulated industries such as pharma, food manufacturing and banking, this increasingly exposes us to information security and cyber risk.

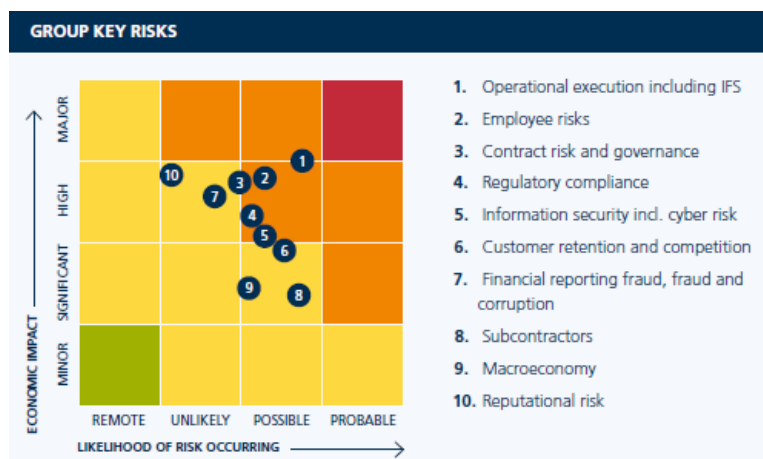
Consequently, we have expanded our Information Security Policy and strengthened the supporting organisation, and initiated the roll-out of the updated policy in Q3 2016.

In addition to the above risks, focus in 2017 will be on supplier and sub-contractor risk, as we will be formalising minimum requirements and reducing risk through a wider risk management framework.

GROUP KEY RISKS

Presented in the overview below and on the following pages are the key risks that the Group currently faces. The risks are unchanged from last year.

In addition to the key business risks, we are exposed to financial risks as a result of our operating, investing and financing activities. Financial risk management is described in note 5.4 to the consolidated financial statements.



GROUP KEY RISKS ¹⁾	RISK DRIVERS	MITIGATING MEASURES
1. Operational execution including IFS As our services are increasingly becoming an integral part of our customers' value streams, any lack of compliance with operational procedures or contract requirements may disrupt or damage our customers' operations and/or brands.	<ul style="list-style-type: none"> • Complexity in our service delivery • Customer requirements relating to operational control and risk management (e.g. in the financial services and pharmaceutical industries) 	<ul style="list-style-type: none"> • Contract risk and compliance tool • ISS facility management IT system (FMS@ISS) implemented on selected major accounts. Supports automation of operating processes and ensures that services are delivered and managed according to the process frameworks • Operational risk reviews on selected contracts as part of global risk management framework • Group HSE policies • Group Escalation Policy and Emergency Response Plan
2. Employee risks Our continued success depends on our ability to attract, develop and retain talented and engaged people, especially in leadership and key account manager positions. It also requires that we take good care of our people with respect to HSE and work environment. We depend on our leaders throughout the organisation to lead by example and to empower their colleagues to mitigate risk.	<ul style="list-style-type: none"> • "War for talent" • Customer requirements on HSE • Decentralised structure 	<ul style="list-style-type: none"> • Our GREAT initiative "Empowering people through leadership" focusing on leadership development and training • Global People Standards and Group HSE policies • Global employee engagement surveys
3. Contract risk and governance The profitability of our contracts depends upon our ability to successfully calculate prices by taking economic factors, legal and other risk elements into consideration, and to manage our day-to-day operations under these contracts.	<ul style="list-style-type: none"> • Complexity in contracts and services (e.g. IFS and energy management) • Increasing contract volumes (e.g. the increasing share of Global Corporate Clients) 	<ul style="list-style-type: none"> • Framework and IT tool for contract risk management (CRAM@ISS) • Approval procedure for large contracts • Contract risk reviews performed by Group Risk Management for specific contracts • High risk contract dashboard for monitoring limitation of liability
4. Regulatory compliance We are subject to a variety of complex and restrictive laws and regulations such as labour, employment, immigration, health and safety, tax (including social security, withholding and transfer pricing), corporate governance, customer protection, business practices, competition and the environment. We incur substantial costs and commit a significant amount of our management's resources to regulatory compliance.	<ul style="list-style-type: none"> • Changes in local regulations and stepped-up enforcement • Customers outsourcing a part of their compliance risk to ISS 	<ul style="list-style-type: none"> • Group Corporate Governance Policy • Code of Conduct, Anti-Corruption Policy and Competition Law Policy • Mandatory e-learning modules in Code of Conduct, anti-corruption, anti-bribery and competition law for selected managers and employees
5. Information security incl. cyber risk Due to the increasing IFS share of Group revenue, we increasingly hold and manage data related to customers' businesses, e.g. basic personal data, asset information, manufacturing plant design and the like. Combined with our business strength in highly regulated industries such as pharma, food manufacturing and banking, this increasingly exposes us to information security and cyber risk.	<ul style="list-style-type: none"> • IFS contracts • Change in data privacy regulations 	<ul style="list-style-type: none"> • Information Security Policy and other Group IT policies and procedures • Process initiated to implement Binding Corporate Rules (BCR) for the exchange of personal data between ISS Group companies

¹⁾ The risks are presented in the context of the entire Group, which means that the risks identified are considered to be globally applicable throughout the organisation. Consequently, the mitigation action plans are largely Group initiatives, or at least initiatives with the ultimate owner in a Group function. As a consequence, the risk environment and the prioritisation of Group risk mitigation action plans may be different at country level, reflecting the different maturity levels throughout the Group.

GROUP KEY RISKS ¹⁾	RISK DRIVERS	MITIGATING MEASURES
6. Customer retention and competition Our ability to target selected customer segments with attractive and competitive value propositions is key to attracting and retaining IFS, multi-service and single-service customers. Failure to develop and execute on value propositions may lead to increased price competition and contract losses as the facility services market is fragmented with relatively low barriers to entry and significant competition from local and regional players.	<ul style="list-style-type: none"> • Customer concentration • Key account management • Inconsistent service delivery for key accounts • Strategic market position 	<ul style="list-style-type: none"> • Roll-out of Customer Relationship Management system (CRM@ISS) • Measuring customer satisfaction (cNPS) through an annual survey covering most of the Group's revenue • KAMC being rolled out
7. Financial reporting fraud, fraud and corruption Our decentralised structure of financial IT systems and operational control structures increases the risk of fraud and corruption. Our growing presence in emerging markets increases our exposure to compliance risks in countries where improper practises may be common.	<ul style="list-style-type: none"> • Exposure in emerging markets • Decentralised financial IT systems and control structures • Step-up in extraterritorial regulation and enforcement 	<ul style="list-style-type: none"> • Well-established and documented control environment, see p. 32 • Review of the integrity and robustness of interfaces as an integral part of internal audit assignments • Monitoring the implementation of key controls through the system of Control Self-Assessment • Mandatory e-learning modules on Code of Conduct, anti-corruption, anti-bribery and competition law for selected managers and employees • Speak Up policy (Whistleblower system hosted by third party) • Roll-out of automated interfaces between local ERP platforms and the Group's standardised financial reporting tool, see p. 32.
8. Subcontractors We depend on subcontractors where we do not have self-delivery capabilities. This represents a risk primarily with respect to: <ul style="list-style-type: none"> • Performance – if subcontractors do not perform in accordance with the customer contract ISS has entered into. • Compliance – potential risk of noncompliance with labour laws or other regulatory requirements 	<ul style="list-style-type: none"> • Growth in countries with low IFS capabilities • Growth in Global Corporate Clients portfolio 	<ul style="list-style-type: none"> • Negotiation Process Framework • Separate framework when using subcontractors in countries with no ISS presence • Supplier Code of Conduct
9. Macroeconomy In recent years, financial turmoil has been recurring and has affected the global economy, in particular in southern Europe and in emerging markets. Revenue, operating margin, cash conversion and debt position could potentially be adversely impacted.	<ul style="list-style-type: none"> • Financial turmoil • Customers downsizing their businesses or reducing their demand for services 	<ul style="list-style-type: none"> • On-going formal monitoring of market developments
10. Reputational risk Protecting our reputation is the responsibility of every employee, because our reputation is shaped by all actions and statements made by ISS.	<ul style="list-style-type: none"> • IFS contracts • Use of social media 	<ul style="list-style-type: none"> • Any incident or issue must be escalated to senior-level management for evaluation • Crisis communication plan integrated in Group Escalation Policy and Group Crisis Response Plan • Media handling and monitoring tools • Media communication guidelines

CORPORATE GOVERNANCE

The management team of the Group formally consists of the Board of Directors and the Managing Director of ISS Global A/S. Since ISS Global A/S has no operating activities of its own, the Group relies on the management team of ISS A/S, the ultimate parent company in Denmark. As a subsidiary of ISS A/S, ISS Global A/S is subject to the same corporate governance policies applicable in ISS A/S. Corporate governance of the ISS Global Group is therefore built on corporate governance of the ISS A/S Group, including the management team, and the descriptions throughout this chapter should be seen in this context.

We base our corporate governance on transparency, constructive stakeholder dialogue, sound decision-making processes and controls for the benefit of the Group and our stakeholders.

FRAMEWORK AND RECOMMENDATIONS

The Board of Directors regularly reviews the Group's corporate governance framework and policies in relation to the Group's activities, business environment, corporate governance recommendations and statutory requirements; and continuously assesses the need for adjustments.

The 2016 statutory report on corporate governance, which is available at <http://inv.issworld.com/governancereport.cfm>, provides an overview of our overall corporate governance structure and our position on each of the Danish Corporate Governance Recommendations.

At the end of 2016, we complied with all of the Danish Corporate Governance Recommendations, except recommendation 3.1.4 regarding stipulating a retirement age for board members in the articles of association. Considering international trends, the nomination process focusing on the candidate's background, competencies and experience and recent Danish legislation on age discrimination, the Board of Directors proposed to delete the retirement age in the Company's Articles of Association

at the 2016 annual general meeting, which the shareholders approved.

GOVERNANCE STRUCTURE

SHAREHOLDER AND GENERAL MEETING

The shareholders of ISS A/S exercise their rights at the general meeting, which is the supreme governing body of ISS.

Rules on the governance of ISS A/S, including share capital, general meetings, shareholder decisions, election of members to the Board of Directors, Board meetings, etc. are described in our Articles of Association, which are available at <http://inv.issworld.com/articles.cfm>.

MANAGEMENT

As is current practice in Denmark, management powers are distributed between our Board of Directors (Board) and our Executive Group Management Board (EGMB). No person serves as a member of both of these corporate bodies. Our EGMB carries out the day-to-day management, while our Board supervises the work of our EGMB and is responsible for the overall management and strategic direction.

BOARD OF DIRECTORS

The primary responsibilities of the Board and the four board committees established by the Board are outlined in our governance structure on the following page. Each board committee has a charter. Key matters transacted annually by the Board can be found on p. 30.

On an ongoing basis, the Board reviews the Group's capital structure. The Board considers that the present capital and share structure serves the best interests of both the shareholders and ISS as it gives ISS the flexibility to pursue strategic goals thus supporting long-term shareholder value, combined with short-term shareholder value by way of ISS's dividend policy.

The Board performs an annual evaluation of its performance, including of its individual members and an evaluation of the performance of the EGMB and of the cooperation between the Board

1 ST LEVEL	THE BOARD OF DIRECTORS (BOARD)	
	<p>Responsible for the overall management and strategic direction of the Group, including:</p> <ul style="list-style-type: none"> • strategy plan and annual budget • appointing members of the EGMB • supervising the activities of the Group • reviewing the financial position and capital resources to ensure that these are adequate <p>The Board receives a monthly financial reporting package and is briefed on important matters in between board meetings</p>	<p>Meetings</p> <p>Nine meetings held in 2016. The Board convenes at least six times a year, including for one strategy meeting</p>
	BOARD COMMITTEES	
	AUDIT AND RISK COMMITTEE <ul style="list-style-type: none"> • Evaluates the external financial reporting and use of significant accounting estimates and judgement related to items such as impairment tests, disposal groups and deferred tax, see section 1 to the consolidated financial statements • Monitors the Group internal audit function • Monitors and considers the relationship with the independent auditors, reviews the audit process and recommends auditors to the board • Reviews and monitors the Group's risk management and internal controls • Evaluates the Financial Policy and the Tax Policy • Six meetings held in 2016 	NOMINATION COMMITTEE <ul style="list-style-type: none"> • Assists the Board in ensuring that appropriate plans and processes are in place for the nomination of candidates to the Board and the EGMB • Evaluates the composition of the Board and the EGMB • Makes recommendations for nomination or appointment of members of the Board, the EGMB and the board committees • Three meetings held in 2016
2 ND LEVEL	REMUNERATION COMMITTEE <ul style="list-style-type: none"> • Assists the Board in preparing the remuneration policy and the overall guidelines on incentive pay • Recommends to the Board the remuneration of the members of the Board and the EGMB, approves remuneration of EGM as well as the remuneration policy applicable to ISS in general • Four meetings held in 2016 	TRANSACTION COMMITTEE <ul style="list-style-type: none"> • Makes recommendations to the Board in respect of certain large acquisitions, divestments and customer contracts • Reviews the transaction pipeline • Considers ISS's procedures for large transactions • Evaluates selected effected transactions • Four meetings held in 2016
	EXECUTIVE GROUP MANAGEMENT (EGM)	
3 RD LEVEL	<p>Carries out the day-to-day management of the Group, including:</p> <ul style="list-style-type: none"> • developing and implementing strategic initiatives and Group policies • designing and developing the organisational structure • monitoring Group performance • evaluating and executing investments, acquisitions, divestments and large customer contracts • assessing on an ongoing basis whether the Group has adequate capital resources at all times and whether it has adequate liquidity to meet its existing and future liabilities 	<ul style="list-style-type: none"> • establishing general procedures for accounting, IT organisation, risk management and internal control
	COUNTRY MANAGEMENT	
	<p>Appointed to manage the business in accordance with Group policies and procedures as well as local legislation and practice of each country, including managing operations in their market</p>	<p>Country management teams are set out under each relevant country at www.issworld.com</p>

and the EGMB. In 2016, a Board evaluation performed with the assistance of external consultants and an evaluation of the performance of the Board and the cooperation with the EGMB were completed.

All board members elected by the general meeting stand for election each year at our annual general meeting. Board members are eligible for re-election.

In April 2016, the general meeting elected Ben Stevens as new board member while Jo Taylor did not seek re-election. As part of the induction programme, Ben Stevens met with board members, members of the wider management representing regions and functions of ISS, as well as key employees.

In addition to the board members elected by the general meeting, three employee representatives serve on the Board. They are elected on the basis of a voluntary arrangement regarding Group representation for employees of ISS World Services A/S as further described in the Articles of Association. Employee representatives serve for terms of four years. The current employee representatives joined the Board after the annual general meeting in April 2015.

EXECUTIVE GROUP MANAGEMENT BOARD

The members of the EGMB are the Group CEO and Group CFO. Together, they form the management registered with the Danish Business Authority.

The Group has a wider Executive Group Management (EGM), whose members are nine Corporate

Senior Officers of the Group in addition to the EGMB. The primary responsibilities of the EGM are outlined in our governance structure on p. 29.

COMPETENCIES AND DIVERSITY

As one of the world's largest private employers and with operations in 47 countries, we are committed to fostering and cultivating a culture of diversity and inclusion. With more than 494,000 employees, ISS embraces and encourages diversity in its broadest sense. We recognise that our diverse workforce gives us a key competitive advantage, and we consider our employees to be our most valuable asset. Diversity makes ISS creative, productive and an attractive place to work.

The Board and the EGM recognise the importance of promoting diversity at management levels and have implemented policies regarding competencies and diversity in respect of Board and EGM nominations according to which we are committed to selecting the best candidate while aspiring to have diversity in gender as well as in broader terms such as international experience. Emphasis is placed on:

- experience and expertise (such as industry, risk management, finance, financing, strategy, international business, labour force management and HR, management and leadership);
- diversity (including age, gender, new talent and international experience) as well as diversity of perspectives brought to the Board or the EGM; and
- personal characteristics matching ISS's values and leadership principles.

KEY MATTERS TRANSACTED BY THE BOARD – EXAMPLES

Key matters transacted annually:

- overall strategy, business and action plan
- annual budget
- capital and share structure, financing and dividend and share buy-back policy
- external financial reporting and CR report
- material risks and risk management reporting
- internal controls, procedures and risks related to financial reporting
- corporate governance
- assessment of competencies, composition and independence of the Board
- charters and composition of committees
- composition of the EGMB
- succession planning
- evaluation of performance of the individual board members, performance of the EGMB and cooperation between the Board and the EGMB
- activities to ensure diversity at other management levels
- Remuneration Policy and Guidelines on Incentive Pay
- Group Financial Policy

- one annual deep dive review of each region
- review of the Group Commercial agenda twice a year
- review of Global Operations agenda twice a year
- review of the People & Culture agenda twice a year
- recommends auditors for election at the annual general meeting

Specific key matters transacted in 2016:

- board effectiveness review in consultation with external consultants
- nomination of new independent board member, incl. induction
- nomination of new Group CFO
- supervising new delayed management structure in operation for the first year
- capital allocation
- updated Corporate Governance documentation to reflect requirement of new Market Abuse Regulation

In support of our commitment to gender diversity, the Board adopted a target in 2014 of increasing the number of women on our Board elected by the general meeting from one to at least two members not later than at the 2017¹⁾ annual general meeting. With the election of two women to the Board in 2015, the target was achieved, and the Board set a new target of reaching at least 40% women on the Board by 2020. Currently, there are 33% women on the Board.

In terms of international experience, the Board aims at all times to have sufficient international experience at all management levels taking into account the size and activities of ISS. The Board considers that it has diverse and broad international experience. The EGM is considered to have the necessary international experience if half of its members have international experience from large international companies. Presently, all members of the EGM have international experience.

In order to promote, facilitate and increase the number of women in management level positions at ISS's global head office, we continue leveraging our Diversity Policy, which defines a number of initiatives. Our initiatives include ensuring that female candidates are identified for vacant positions, developing succession plans aiming at identifying female successors and tabling the matter of women in leadership at ISS for discussion at least once a year at EGM level. Furthermore, we ensure strong representation of women in various ISS leadership development and graduate programmes across the Group and at the global head office.

The amount of women at management level at the global head office increased slightly in 2016 compared to 2015 and gender diversity remains a focus area in 2017.

Reference is also made to the 2016 statutory report on corporate governance available at <http://inv.issworld.com/governancereport.cfm>

ASSURANCE

EXTERNAL AUDIT

The Group's financial reporting and internal controls are audited by the independent auditors elected by the annual general meeting. The nomination follows an assessment of the qualifications, objectivity and independence of the auditors and the effectiveness of the audit process.

All board members receive the auditors' long-form audit reports in connection with the audit of the annual consolidated financial statements and any other long-form audit reports. Auditor reports are discussed in detail by the Audit and Risk Committee.

GROUP INTERNAL AUDIT (GIA)

GIA regularly reports to the Audit and Risk Committee and the Board, and its activities are governed by a charter approved by the Board.

The work of GIA and internal controls relating to financial reporting are described on p. 33.

SPEAK UP POLICY (WHISTLEBLOWER)

The Group has adopted a whistleblower policy – which in 2016 was re-branded as the “Speak Up policy” – to enable employees, business partners and other stakeholders to report any serious and sensitive concerns in a confidential manner. Such concerns may be reported to the Head of GIA via a secure and externally hosted reporting site, which is accessible via the ISS website.

¹⁾ In respect of the specific target for ISS Global A/S, the Board of Directors of ISS Global A/S has decided to target an increase in the number of women on the Board of Directors from none to at least one member by the annual general meeting in 2021. This is a target only and in selecting new board members, ISS remains committed to always selecting the best person for the Board of Directors based on competencies, experience and diversity. As ISS Global A/S does not have any employees a policy promoting gender diversity at other management levels has not been adopted.

INTERNAL CONTROLS RELATING TO FINANCIAL REPORTING

Quality and efficiency of financial reporting is a fundamental objective, requiring a strong governance and internal controls framework.

ASSURANCE RESPONSIBILITY

The responsibility for the Group's internal control environment lies with the Board of Directors (Board).

Policies of relevance to financial reporting are approved by the Board and include the Code of Conduct, the Accounting Manual, the Reporting Manual, the Financial Policy, Control Procedures and the Escalation Policy.

The Audit and Risk Committee appointed by the Board is responsible for monitoring the internal controls and risk management systems.

Group Internal Audit (GIA), consisting of 9 employees, is responsible for providing an objective and independent assessment of the effectiveness and quality of the internal controls in accordance with the internal audit plan approved by the Audit and Risk Committee. To ensure that GIA works independently of the Executive Group Management Board (EGMB), it operates under a charter approved by the Board and reports not only to the Group CFO, but also directly to the Audit and Risk Committee.

GIA's responsibility is to provide the Board and the EGMB with reasonable assurance that:

- internal controls are in place to support the quality and efficiency of the financial reporting processes;
- significant risks are identified and material misstatements are detected and corrected; and
- the financial reporting is in compliance with ISS policies and procedures and gives a true and fair view of the Group's financial position and results.

Country management is responsible for ensuring that the control environment in each operating

country is sufficient to prevent material errors in the country's financial reporting. Regional management provides governance of the country control environment.

Group Controlling is responsible for controlling the financial reporting from subsidiaries and for preparing the consolidated financial reporting.

Our governance structure, see p. 29.

RISK ASSESSMENT

The EGMB annually identifies and assesses the material financial reporting risks and decides which control activities and systems are required to detect and prevent such risks. This is done based on a materiality test, including an assessment of the impact of quantitative and qualitative factors and an assessment of the likelihood of any material error occurring.

To challenge the EGMB, the Audit and Risk Committee on an ongoing basis discusses:

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

CONTROL ACTIVITIES

The Group has implemented a formalised financial reporting process, which includes the reporting requirements and related control activities for key areas illustrated in the table on the next page.

In addition to the use of a standardised process and system for the consolidated financial reporting, the work to strengthen controls for financial reporting continues through the implementation across the Group of a shared ERP system platform. By the end of 2016, the ERP system had been implemented in 22 countries covering 30% of Group revenue.

Furthermore, the roll-out of an automated interface has strengthened the control of consistency between local ERP systems and the Group's standard financial reporting tool. At the end of 2016, this was in place for 34 countries covering 85% of Group

revenue. The objective is to reach a further 12 countries by the end of 2017, which would cover all countries where ISS operates and has an office and approximately 100% of Group revenue.

An essential element to ensure the correct and timely financial reporting is the availability of relevant information to the employees involved in the process. For this purpose, information and communication systems have been established, providing easy access to the appropriate information, including the Accounting Manual, the Reporting Manual, the Budgeting Manual and other relevant guidelines.

THE WORK OF GROUP INTERNAL AUDIT

GIA performs audits across the Group. The annual audit planning is based on the group key risks as described on pp. 25–27, a risk assessment performed for the individual countries and the outcome of the annual control self-assessment survey.

The internal audit framework consists of three elements:

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

In 2016, GIA performed 26 baseline audits in individual countries and 20 contract audits. Furthermore, 20 risk-based audits were performed covering internal control areas related to the quality and effectiveness of financial reporting. A key focus area for the assurance activities in 2016 was governance and internal controls within Group

corporate functions in support of the objectives to increase the use of shared system solutions, process consistency and data transparency across the Group.

The findings and conclusions of the internal audits, including recommendations on how to improve the control environment, are reported to country and regional management, the EGMB and the independent Group auditors. The key findings are presented to the Audit and Risk Committee, which evaluates

the results and considers the conclusions when reviewing the internal audit plan for the coming year.

To support the efforts to improve the internal controls environment, GIA tracks the progress on resolving the audit findings. Reports on the progress are prepared for the Audit and Risk Committee, the EGMB, and regional management. Follow-up audits are performed to provide assurance on the implementation of the measures to resolve audit findings.

ITEM	REPORTING	CONTROL ACTIVITIES
Financial position and results	All countries report an income statement, statement of financial position, statement of cash flows, portfolio analysis and three-month forecasts etc. on a monthly basis.	Group Controlling monitors and controls the reporting for significant deviations compared to budget.
Cash flow forecasts	All countries bi-weekly report their daily cash flow forecasts for a rolling three-month period.	Actual figures are continuously monitored and validated by Group Treasury for deviations compared to forecasted figures, including e.g. daily follow-up on local material cash balances.
Business reviews	All countries report an income statement, statement of financial position, statement of cash flows, portfolio analysis, three-month forecasts and contract performance etc. on a monthly basis.	Monthly meetings between regional management and country management with a focus on the current performance and the state of the business.
Budgets and financial plans	All countries prepare budgets and plans for the following financial year in a pre-defined format.	Regional management reviews the proposed budgets and plans with the countries.
Full-year forecasts	All countries update and report their full-year estimates twice a year and submit a three-month rolling forecast on a monthly basis	Regional management reviews the proposed full-year estimates with the countries in light of the current performance and the state of the business.
Strategy reviews	Country management provide annual updates of a predefined strategy template, including progress on key strategic priorities.	Annual meetings held with country managers at which the strategy is discussed and priorities and plans for the coming year are agreed.
Acquisitions and divestments	Acquisition and divestment proposals are presented in a predefined report format and valuation model.	Transaction Committee/Board approval is required for large or strategic acquisitions and divestments.
Large contracts	Bids for large contracts are presented in a predefined format focusing on risk evaluation.	Depending on size, approval is required by regional management, EGMB or Transaction Committee/Board.
Control self-assessments	Once a year, country management performs a self-assessment of the implementation of certain key internal control activities and develop plans to close any implementation gaps.	Group Internal Audit performs ongoing audits based on the countries' control self-assessment.

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CONSOLIDATED INCOME STATEMENT

1 JANUARY – 31 DECEMBER

		2016				2015	
DKK million	Note	Adjusted results	Acqui-sition-related	Reported results	Adjusted results	Acqui-sition-related	Reported results
Revenue	2.1	79,177	-	79,177	79,631	-	79,631
Staff costs	2.2, 7.2	(50,340)	-	(50,340)	(51,422)	-	(51,422)
Consumables		(6,636)	-	(6,636)	(6,808)	-	(6,808)
Other operating expenses	6.4	(16,437)	-	(16,437)	(15,587)	-	(15,587)
Depreciation and amortisation ¹⁾	4.5, 7.1	(651)	-	(651)	(702)	-	(702)
Operating profit before other items		5,113	-	5,113	5,112	-	5,112
Other income and expenses, net	2.4	(220)	-	(220)	108	-	108
Royalty		(1,266)	-	(1,266)	(1,262)	-	(1,262)
Goodwill impairment	4.7	-	(194)	(194)	-	(273)	(273)
Amortisation/impairment of customer contracts	4.5	-	(359)	(359)	-	(253)	(253)
Operating profit	2.1, 7.5	3,627	(553)	3,074	3,958	(526)	3,432
Financial income	5.3	84	-	84	68	-	68
Financial expenses	5.3	(556)	-	(556)	(730)	-	(730)
Profit before tax		3,155	(553)	2,602	3,296	(526)	2,770
Income taxes	2.5, 2.6	(907)	129	(778)	(929)	74	(855)
Net profit		2,248	(424)	1,824	2,367	(452)	1,915
Attributable to:							
The owner of ISS Global A/S				1,820			1,908
Non-controlling interests				4			7
Net profit				1,824			1,915

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

Background for the income statement presentation is described in section 1, p. 40.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

DKK million	Note	2016	2015
Net profit		1,824	1,915
Items not to be reclassified to the income statement in subsequent periods:			
Actuarial gains/(losses)	7.2	(79)	(255)
Impact from asset ceiling regarding pensions	7.2	(6)	(3)
Tax	2.6	22	62
Items to be reclassified to the income statement in subsequent periods:			
Foreign exchange adjustments of subsidiaries and non-controlling interests		(475)	474
Fair value adjustment of hedges, net		-	(1)
Fair value adjustment of hedges, net, transferred to Financial expenses		-	10
Tax		-	(2)
Other comprehensive income		(538)	285
Comprehensive income		1,286	2,200
Attributable to:			
The owner of ISS Global A/S		1,282	2,193
Non-controlling interests		4	7
Comprehensive income		1,286	2,200

CONSOLIDATED STATEMENT OF CASH FLOWS

1 JANUARY – 31 DECEMBER

DKK million	Note	2016	2015
Operating profit before other items		5,113	5,112
Depreciation and amortisation	4.5, 7.1	651	702
Share-based payments (non-cash)		50	45
Changes in working capital	3.4	(129)	(53)
Changes in provisions, pensions and similar obligations		(191)	(95)
Other expenses paid		(181)	(280)
Interest received from companies within the ISS Group		23	27
Interest received, external		55	42
Interest paid to companies within the ISS Group		(13)	(12)
Interest paid, external		(330)	(386)
Income taxes paid		(746)	(705)
Payments related to royalties		(1,346)	(1,264)
Cash flow from operating activities		2,956	3,133
Acquisition of businesses	4.1	(155)	(446)
Divestment of businesses	4.2	187	477
Acquisition of intangible assets and property, plant and equipment		(764)	(878)
Disposal of intangible assets and property, plant and equipment		69	70
(Acquisition)/disposal of financial assets		26	(30)
Cash flow from investing activities		(637)	(807)
Proceeds from bonds and senior facilities		-	4,526
Repayment of bonds and senior facilities		-	(4,645)
Other financial payments, net		(841)	(707)
Capital increase, non-controlling interests		-	33
Dividends paid to the shareholder		(2,185)	(2,000)
Payments (to)/from companies within the ISS Group, net		560	1,407
Dividends paid to non-controlling interests		(4)	(6)
Cash flow from financing activities		(2,470)	(1,392)
Total cash flow		(151)	934
Cash and cash equivalents at 1 January		4,510	3,537
Total cash flow		(151)	934
Foreign exchange adjustments		(87)	39
Cash and cash equivalents at 31 December		4,272	4,510

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

DKK million	Note	2016	2015
ASSETS			
Intangible assets	4.5, 4.6	18,818	19,578
Property, plant and equipment	7.1	1,555	1,592
Deferred tax assets	2.6	861	931
Other financial assets		350	418
Non-current assets		21,584	22,519
Inventories		276	297
Trade receivables	3.1	11,307	10,770
Tax receivables		222	236
Receivables from companies within the ISS Group		2,233	2,507
Other receivables	3.2	1,922	1,633
Cash and cash equivalents		4,272	4,510
Assets classified as held for sale	4.3	1,625	1,698
Current assets		21,857	21,651
Total assets		43,441	44,170
EQUITY AND LIABILITIES			
Total equity attributable to the owner of ISS Global A/S		2,078	2,981
Non-controlling interests		10	10
Total equity	5.1	2,088	2,991
Loans and borrowings	5.2	14,897	14,926
Pensions and similar obligations	7.2	1,638	1,683
Deferred tax liabilities	2.6	794	868
Provisions	7.3	256	277
Non-current liabilities		17,585	17,754
Loans and borrowings	5.2	6,510	6,715
Trade payables		3,990	3,339
Tax payables		339	369
Other liabilities	3.3	12,316	12,367
Provisions	7.3	187	192
Liabilities classified as held for sale	4.3	426	443
Current liabilities		23,768	23,425
Total liabilities		41,353	41,179
Total equity and liabilities		43,441	44,170

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 JANUARY – 31 DECEMBER

		Attributable to the owner of ISS Global A/S					
		Share capital	Retained earnings	Trans- lation reserve	Total	Non-con- trolling interests	Total equity
2016							
DKK million	Note						
Equity at 1 January		180	2,090	711	2,981	10	2,991
Net profit		-	1,820	-	1,820	4	1,824
Other comprehensive income		-	(63)	(475)	(538)	0	(538)
Comprehensive income		-	1,757	(475)	1,282	4	1,286
Dividends paid to the shareholder	5.1	-	(2,185)	-	(2,185)	-	(2,185)
Dividends paid to non-controlling interests		-	-	-	-	(4)	(4)
Transactions with the owner		-	(2,185)	-	(2,185)	(4)	(2,189)
Changes in equity		-	(428)	(475)	(903)	0	(903)
Equity at 31 December		180	1,662	236	2,078	10	2,088
2015							
Equity at 1 January		180	2,370	219	2,769	9	2,778
Net profit		-	1,908	-	1,908	7	1,915
Other comprehensive income		-	(207)	492	285	(0)	285
Comprehensive income		-	1,701	492	2,193	7	2,200
Disposal of shares in subsidiary		-	(14)	-	(14)	-	(14)
Capital increase, non-controlling interests		-	33	-	33	-	33
Dividends paid to the shareholder	5.1	-	(2,000)	-	(2,000)	-	(2,000)
Dividends paid to non-controlling interests		-	-	-	-	(6)	(6)
Transactions with the owner		-	(1,981)	-	(1,981)	(6)	(1,987)
Changes in equity		-	(280)	492	212	1	213
Equity at 31 December		180	2,090	711	2,981	10	2,991

BASIS OF PREPARATION

SECTION 1

CORPORATE INFORMATION

The consolidated financial statements of ISS Global A/S as of and for the year ended 31 December 2016 comprise ISS Global A/S and its subsidiaries (together referred to as "the Group"). Significant subsidiaries are included in 7.9, Group companies.

The Annual Report for ISS Global A/S for 2016 was discussed and approved by the Managing Director and the Board of Directors (Board) on 9 March 2017 and issued for approval at the subsequent annual general meeting on 31 March 2017.

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and additional requirements of the Danish Financial Statements Act. In addition, the consolidated financial statements have been prepared in compliance with the IFRSs issued by the IASB.

The Group's significant accounting policies and accounting policies related to IAS 1 minimum presentation items are described in the relevant individual notes to the consolidated financial statements or otherwise stated below. A list of the notes is shown on p. 34.

The consolidated financial statements are presented in Danish kroner (DKK), which is ISS Global A/S's functional currency. All amounts have been rounded to nearest DKK million, unless otherwise indicated.

CHANGES IN ACCOUNTING POLICIES

Except for the changes below, the Group has consistently applied the accounting policies set out below to all periods presented in these consolidated financial statements. However, based on new information minor adjustments to comparative figures in primary statements and notes have been implemented.

With effect from 1 January 2016, the Group has implemented:

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IFRS 11 "Joint Arrangements": Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 1 "Presentation of financial statements: Disclosure Initiative";
- Amendments to IAS 27 "Separate Financial Statements": Equity Methods in Separate Financial Statements;
- IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of interests in Other Entities" and IAS 28 "Investments in associates and joint ventures": Applying the Consolidation Exemption; and
- Annual Improvements to IFRSs 2012-2014.

The adoption of these standards and interpretations did not affect recognition and measurement for 2016.

PRESENTATION OF THE INCOME STATEMENT

When designing our income statement our aim has been to ensure that line items, headings and subtotals presented are relevant to understand ISS's financial performance.

In the past, ISS has built its business platform, and grown its business, through a significant number of acquisitions, which has added a substantial amount of intangibles to the statement of financial position. Consequently, large amounts of non-cash amortisation/impairment of intangibles are recognised in our income statement every year.

It is important for us to clearly separate these items to understand the impact of our growth strategy and to enable comparison with our peers. For those reasons, the income statement is presented in a three-column format, where the line items Goodwill impairment and Amortisation/impairment of customer contracts are presented separately in the column "Acquisition-related" together with the income tax related hereto.

DEFINING MATERIALITY

The income statement and the statement of financial position separately present items that are considered individually significant, or are required under the minimum presentation requirements of IAS 1.

In determining whether an item is individually significant ISS considers both quantitative and qualitative factors. If the presentation or disclosure of an item is not decision-useful, the information is considered insignificant.

Explanatory disclosure notes related to the consolidated financial statements are presented for individually significant items. Where separate presentation of a line item is made solely due to the minimum presentation requirements in IAS 1, no further disclosures are provided in respect of that line item.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise ISS Global A/S and entities controlled by ISS Global A/S. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

On consolidation all intra group transactions, balances, income and expenses are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The non-controlling interest's share of net profit and equity of subsidiaries, which are not wholly-owned, are included in the Group's net profit and equity, respectively, but disclosed separately. By virtue of agreement certain non-controlling shareholders are only eligible of receiving benefits from their non-controlling interest when ISS as controlling shareholder has received their initial investment and compound interest on such. In such instances the subsidiaries' result and equity are fully allocated to ISS until the point in time where ISS has recognised amounts exceeding their investment including compound interest on such.

Changes in ownership interest in a subsidiary, without loss of control, are accounted for as equity transactions.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in Other income and expenses, net. Any investment retained is recognised at fair value on initial recognition.

FOREIGN CURRENCY

Transactions denominated in currencies other than the functional currency of the respective Group companies are considered transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated to the respective functional currencies of the Group companies at the exchange rates at the transaction date. Foreign exchange adjustments arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement under Financial income or Financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the reporting date. The difference between the exchange rates at the reporting date and at the date of transaction or the exchange rate in the latest financial statements is recognised in the income statement under Financial income or Financial expenses.

On recognition in the consolidated financial statements of Group companies with a functional currency other than DKK, the income statements and statements of cash flows are translated at the exchange rates at the transaction date and the statements of financial position are translated at the exchange rates at the reporting date. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date. Foreign exchange adjustments arising on translation of the opening balance of equity of foreign entities at the exchange rates at the reporting date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the reporting date are recognised in other comprehensive income and presented in equity under a separate translation reserve. However, if the foreign entity is a non-wholly owned subsidiary, the relevant proportion of the translation difference is allocated to the non-controlling interest.

Foreign exchange adjustment of balances with foreign entities which are considered part of the investment in the entity is recognised in the consolidated financial statements in other comprehensive income and presented in equity under a separate translation reserve.

USE OF SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management made various judgements, estimates and assumptions concerning future events that affected the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Estimates and assumptions are reviewed on an ongoing basis and have been prepared taking macroeconomic developments into consideration, but still ensuring that one-off effects which are not expected to exist in the long term do not affect estimation and determination of these key factors, including discount rates and expectations of the future.

The following are the areas involving significant accounting estimates and judgements:

Accounting item	Estimates	Judgements	Note
Deferred tax	x		2.6
Acquisitions	x		4.1
Disposal groups	x		4.3
Impairment tests	x		4.6
Pensions and similar obligations	x		7.2
Provisions	x		7.3
Revenue - gross or net presentation		x	2.1
Large contracts - revenue and costs		x	2.1
Other income and expenses, net		x	2.4

OPERATING PROFIT AND TAX

SECTION 2

2.1 SEGMENT AND REVENUE INFORMATION

ISS is a global facility services company, that operates in 74 countries and delivers a wide range of services within the areas cleaning, support, property, catering, security and facility management.

Operations are generally managed based on a geographical structure in which countries are grouped into regions. Following the changed organisational structure in 2015, the regional management structure has been adjusted from seven to four regions:

- **Continental Europe** comprise the previous Western and Eastern Europe regions excluding the UK and Ireland
- **Northern Europe** comprise the previous Nordic region plus the UK and Ireland
- **Asia & Pacific** is a merger of the previous two separate regions
- **Americas** is a merger of the previous Latin and North America regions

Comparative figures have been adjusted accordingly.

The regions have been identified based on a key principle of grouping countries that share market conditions and cultures. However, countries with limited activities which are managed by the Global Corporate Clients organisation are excluded from the geographical segments and combined in a separate segment called "Other countries". An overview of the grouping of countries into regions is presented in 7.9, Group companies.

REPORTABLE SEGMENTS

The segment reporting is prepared in a manner consistent with the Group's internal management and reporting structure. Disclosures relating to the income statement of the segments are presented in this note, whereas segment assets and liabilities are disclosed in 7.5, Other segment information together with reconciliation of segment information to the consolidated group amounts.

Transactions between reportable segments are made on market terms.

2016

DKK million	Continental Europe	Northern Europe	Asia & Pacific	Americas	Other countries	Total segments
Revenue ¹⁾	30,095	26,515	14,606	7,885	104	79,205
Depreciation and amortisation ²⁾	(275)	(201)	(121)	(54)	-	(651)
Operating profit before other items	1,823	1,982	1,098	328	(1)	5,230
Operating margin ³⁾	6.1%	7.5%	7.5%	4.2%	(1.3)%	6.6%
Other income and expenses, net	(99)	(34)	11	(98)	-	(220)
Royalty	(510)	(427)	(213)	(116)	-	(1,266)
Goodwill impairment	-	(139)	-	(55)	-	(194)
Amortisation/impairment of customer contracts	(56)	(83)	(39)	(181)	-	(359)
Operating profit	1,158	1,299	857	(122)	(1)	3,191

2015

Revenue ¹⁾	29,955	27,256	14,582	7,770	113	79,676
Depreciation and amortisation ²⁾	(283)	(230)	(134)	(55)	-	(702)
Operating profit before other items	1,750	2,056	1,043	323	(1)	5,171
Operating margin ³⁾	5.8%	7.5%	7.2%	4.2%	(0.8)%	6.5%
Other income and expenses, net	202	(42)	(36)	(35)	-	89
Royalty	(456)	(432)	(234)	(140)	-	(1,262)
Goodwill impairment	(147)	-	-	(126)	-	(273)
Amortisation/impairment of customer contracts	(105)	(75)	(41)	(32)	-	(253)
Operating profit	1,244	1,507	732	(10)	(1)	3,472

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

²⁾ Excluding Goodwill impairment and Amortisation/impairment of customer contracts.

³⁾ Excluding Other income and expenses, net, Royalty, Goodwill impairment and Amortisation/impairment of customer contracts.

2.1 SEGMENT AND REVENUE INFORMATION (CONTINUED)

REVENUE BY COUNTRY REPRESENTING MORE THAN 5% OF GROUP REVENUE

DKK million

	2016	2015
UK & Ireland	11,801	12,518
Switzerland	5,251	5,174
France	4,731	4,794
USA & Canada	4,680	4,161
Spain & Portugal	4,635	4,681
Denmark (ISS A/S's country of domicile)	3,500	3,116
Other countries ¹⁾	44,579	45,187
Total	79,177	79,631

¹⁾ Including unallocated items and eliminations.

REVENUE BY SERVICE

DKK million

		2016		2015
Cleaning	50%	39,537	50%	39,841
Property	20%	15,642	20%	15,526
Catering	13%	9,896	13%	10,448
Support	7%	5,732	7%	5,851
Security	7%	5,844	7%	5,480
Facility management	3%	2,526	3%	2,485
Total	100%	79,177	100%	79,631

SIGNIFICANT ACCOUNTING JUDGEMENTS

Gross or net presentation of revenue In some instances, ISS does not self-deliver all services under a contract, either because the service is outside our selected strategic services or because we do not have the capabilities ourselves. In those cases, ISS delivers services through selected partners or subcontractors. The issue is whether revenue should be presented gross, i.e. based on the gross amount billed to the customer (ISS is the principal) or based on the net amount retained (the amount billed to the customer less the amount paid to the subcontractor) because ISS has only earned a commission fee (ISS is the agent).

Management considers whether ISS is acting in the capacity of an agent or a principal. This is based on an evaluation of the risks and responsibilities borne by ISS, including responsibility for delivery of services and credit risk. Judgement is required when evaluating all relevant facts and circumstances.

The Group has entered into certain **significant contracts** with complex revenue and cost structures. Accounting for these contracts requires management's judgement in terms of recognition of the individual items of revenue and costs, including recognition in the correct periods over the term of the contract.

ACCOUNTING POLICY

Revenue from rendering services is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. Revenue is recognised when the recovery of the consideration is probable and when the amount of revenue, the stage of completion, the costs incurred for the transaction, and the costs to complete the transaction can be measured reliably.

The stage of completion of a contract is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Revenue is measured at fair value of the consideration received less VAT and duties as well as price and quantity discounts.

Royalty comprises royalty and management fee invoiced by ISS World Services A/S (the parent company) for services provided.

The accounting policies of the **reportable segments** are the same as the Group's accounting policies described throughout the notes. Segment revenue, costs, assets and liabilities comprise items that can be directly referred to the individual segments. Unallocated items mainly consist of revenue, costs, assets and liabilities relating to the Group's Corporate functions (including internal and external loans and borrowings, cash and cash equivalents and intra-group balances) as well as Financial income, Financial expenses and Income taxes.

For the purpose of segment reporting, segment profit has been identified as Operating profit. Segment assets and segment liabilities have been identified as Total assets and Total liabilities, respectively.

When presenting geographical information segment revenue and non-current assets are based on the geographical location of the individual subsidiary from which the sales transaction originates.

2.2 GOVERNMENT GRANTS

The Group received government grants in the form of wage subventions, which have been recognised in the income statement as a reduction of staff costs. The grants compensate the Group for staff costs primarily related to social security and wage increases as well as hiring certain categories of employees such as trainees, disabled persons, long-term unemployed and employees in certain age groups.

2.3 TRANSLATION AND OPERATIONAL CURRENCY RISK

The Group is exposed to a low level of currency risk on transaction level, since the services are produced, delivered and invoiced in the same local currency as the functional currency in the entity delivering the services with minimal exposure from imported components. The Group is, however, exposed to risk in relation to translation into DKK of income statements and net assets of foreign subsidiaries, including intercompany items such as loans, royalties, management fees and interest payments between entities with different functional currencies, since a significant portion of the Group's revenue and operating profit is generated in foreign entities.

IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS

In 2016, the currencies in which the Group's revenue was denominated decreased with a weighted average of 3.3% (2015: increased with 4.2%) relative to DKK, decreasing the Group's revenue by DKK 2,589 million (2015: an increase of DKK 3,021 million). Currency movements decreased the Group's operating profit before other items by DKK 183 million (2015: an increase of DKK 195 million). The effect of the translation of net assets in foreign subsidiaries decreased other comprehensive income by DKK 475 million (2015: an increase of DKK 474 million).

SENSITIVITY ANALYSIS

It is estimated that a change in foreign exchange rates of the Group's main currencies would have impacted revenue, operating profit before other items and other comprehensive income by the amounts shown below. As in 2015, the analysis is based on foreign exchange rate variances that the Group considered to be reasonably possible at the reporting date. It is assumed that all other variables, in particular interest rates, remain constant and any impact of forecasted sales and purchases is ignored.

DKK million	2016					2015				
	Change in foreign exchange rates	Revenue	Operating profit before other items	Royalty	Net assets in foreign subsidiaries	Change in foreign exchange rates	Revenue	Operating profit before other items	Royalty	Net assets in foreign subsidiaries
GBP	10%	1,113	83	(19)	265	10%	1,190	88	(20)	292
CHF	10%	525	45	(9)	74	10%	517	44	(9)	78
USD	10%	455	18	(6)	97	10%	404	17	(6)	103
NOK	10%	390	32	(6)	(50)	10%	394	33	(6)	(48)
AUD	10%	367	22	(6)	108	10%	422	25	(8)	104
SEK	10%	352	24	(6)	138	10%	371	29	(6)	148
TRY	10%	278	20	(5)	46	10%	279	22	(5)	52
EUR	1%	235	14	(4)	73	1%	235	13	(4)	70
Other	10%	1,732	110	(29)	491	10%	1,717	103	(34)	493
Total	-	5,447	368	(90)	1,242	-	5,529	374	(98)	1,292

2.4 OTHER INCOME AND EXPENSES, NET

DKK million	2016	2015
Gain on divestments	57	351
Other	-	12
Other income	57	363
Restructuring projects	(138)	(150)
Loss on divestments	(101)	(38)
Acquisition and integration costs	(12)	(22)
Other	(26)	(45)
Other expenses	(277)	(255)
Other income and expenses, net	(220)	108

Gain on divestments mainly related to the sale of the security activities in Finland. In 2015, the gain mainly related to the sale of the call centre activities (CMC) in Turkey as well as minor activities and adjustments to prior years' divestments.

Restructuring projects mainly related to the implementation of GREAT under which the review of the customer segmentation and organisational structure has led to structural adjustments in a number of countries. Initiation of structural adjustments of the business platform in Brazil also contributed. This was partly offset by reassessment of previously recognised exceptional provisions for impairment losses on receivables. In general, the costs primarily comprised redundancy payments, termination of leaseholds and relocation costs as well as contract termination costs and related labour claim costs in Brazil. In 2016, costs mainly related to Argentina, Belgium, Brazil, China, Denmark, the Netherlands, Spain & Portugal and the USA. In 2015, costs related to Belgium, Brazil, Denmark, Germany, Spain and the USA as well as at Group level.

Loss on divestments comprised adjustments to prior years' divestments, most significantly the landscaping business in France, the route-based special cleaning services in the Netherlands and the security activities in Greece. Furthermore, remeasurement of one business classified as held for sale in Northern Europe and the divestment of the Group's activities in Greenland resulted in additional losses. In 2015, the loss mainly related to the sale of the route-based special cleaning services in the Netherlands, the temporary labour and staffing activities in Portugal and adjustments to prior years' divestments.

Acquisition and integration costs mainly related to Apunto in Chile and GS Hall plc in the UK and comprised financial and legal fees to advisors as well as costs incurred to integrate the acquired businesses.

SIGNIFICANT ACCOUNTING JUDGEMENTS

Other income and expenses, net consists of significant recurring and non-recurring income and expenses that management does not consider to be part of the Group's ordinary operations, primarily major restructuring projects and gains and losses on divestments. Classification as other expenses is subject to management's review and approval.

Restructuring projects include cost reductions to make ISS more efficient going forward. The types of costs qualifying for treatment as restructuring are costs that are considered of no value to the continuing business and that do not form part of the normal ordinary operations. Whether a restructuring project qualifies for classification as other expenses is evaluated by management from case to case based on a restructuring request. The request includes a detailed project description and cost type specification.

2.5 INCOME TAXES

INCOME STATEMENT

DKK million

	2016	2015
Current tax	748	830
Deferred tax	138	90
Adjustments relating to prior years, net	21	9
Income taxes (adjusted)	907	929
Income taxes (acquisition-related)	(129)	(74)
Income taxes (reported)	778	855

EFFECTIVE TAX RATE

In %

	2016	2015
Statutory income tax rate in Denmark	22.0 %	23.5 %
Foreign tax rate differential, net	1.1 %	(0.5)%
Total	23.1 %	23.0 %
Non-tax deductible expenses less non-taxable income	0.5 %	(0.2)%
Adjustments relating to prior years, net	0.7 %	0.3 %
Change in valuation of net tax assets	1.6 %	2.4 %
Effect of changes in tax rates	0.3 %	(0.1)%
Other taxes	2.6 %	2.8 %
Effective tax rate (profit before tax (adjusted))	28.8 %	28.2 %

Non-tax deductible expenses less non-taxable income comprise various income and expenses, including the impact from interest limitation tax rules and the French tax credit CICE. 2016 was positively impacted by a non-taxable gain on the divestment of the security activities in Finland and 2015 was positively impacted by a non-taxable gain on the divestment of the call centre activities (CMC) in Turkey.

Other taxes mainly comprise withholding tax and the French Cotisation sur La Valeur Ajoutée des Entreprises (CVAE).

2.6 DEFERRED TAX

MOVEMENTS IN DEFERRED TAX

DKK million

	2016	2015
Deferred tax assets, net at 1 January	(63)	(51)
Adjustments relating to prior years, net	3	-
Foreign exchange adjustments	(7)	(10)
Acquisitions and divestments, net	(3)	29
Tax on other comprehensive income	(22)	(62)
Reclassification to Assets/(Liabilities) classified as held for sale	16	15
Tax on profit before tax (adjusted)	138	90
Tax effect of amortisation/impairment of acquisition-related intangibles	(129)	(74)
Deferred tax assets, net at 31 December	(67)	(63)

2.6 DEFERRED TAX (CONTINUED)

DEFERRED TAX SPECIFICATION

DKK million	Deferred tax assets		Deferred tax liabilities	
	2016	2015	2016	2015
Tax losses carried forward	494	496	-	-
Goodwill	8	12	421	404
Customer contracts	29	5	139	224
Property, plant and equipment	62	67	92	92
Provisions and other liabilities	277	359	449	448
Pensions	298	292	-	-
Set-off within legal tax units and jurisdictions	(307)	(300)	(307)	(300)
Deferred tax	861	931	794	868

UNRECOGNISED DEFERRED TAX ASSETS

At 31 December 2016, the Group had unrecognised deferred tax assets which comprised tax losses carried forward and other deductible temporary differences of DKK 1,008 million (2015: DKK 993 million) primarily relating to France, Germany, Brazil, Israel and Argentina.

Unrecognised tax losses can be carried forward indefinitely in the individual countries, except for Argentina (5 years). Deferred tax assets have not been recognised in respect of the above tax losses as it is not deemed probable that future taxable profit will be available in the foreseeable future against which the Group can utilise these.

SIGNIFICANT ACCOUNTING ESTIMATES

Deferred tax assets The Group recognises deferred tax assets relating to tax losses carried forward, when management assesses that these tax assets can be offset against positive taxable income in the foreseeable future. The assessment is made at the reporting date and is based on relevant information, taking into account any impact from limitation in interest deductibility and restrictions in utilisation of tax losses in local tax legislation. The assessment of future taxable income is based on financial budgets approved by management as well as management's expectations regarding the operational development, primarily in terms of organic growth and operating margin in the following 5 years. Furthermore, planned adjustments to capital structure in each country are taken into consideration.

Uncertain tax positions As part of operating a global business, disputes with tax authorities around the world may occur. Management judgement is applied to estimate the possible outcome of such disputes. Provisions for uncertain tax positions are measured based on management's best estimate (more likely than not) of the amount required to settle the obligation. Management believes that the provisions made for such disputes are adequate. However, the actual obligations may deviate, as they depend on the result of litigations and settlements with the relevant tax authorities.

ACCOUNTING POLICY

Income tax for the year consists of current tax and changes in deferred tax and is recognised in the income statement or other comprehensive income. Income tax effect of amortisation/impairment of acquisition-related intangibles is presented in a separate column in connection with these items.

Tax receivables and payables is recognised in the statement of financial position as tax computed on the taxable income for the year, adjusted for tax on the taxable income for previous years and for tax paid on account.

Deferred tax is measured in accordance with the liability method and comprises all temporary differences between accounting and tax values of assets and liabilities. Deferred tax is adjusted for elimination of unrealised intra-group profits and losses. Deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from in business combinations, arose at the time of acquisition without affecting either profit for the year or taxable income. Where alternative taxation rules can be applied to determine the tax base, deferred tax is measured according to management's intended use of the asset or settlement of the liability. Deferred tax is measured according to the taxation rules and tax rates in the respective countries applicable at the reporting date when the deferred tax becomes current tax. Change in deferred tax as a result of changes in tax rates is recognised in the income statement.

Deferred tax assets, including the tax base of tax losses carried forward, are recognised under non-current assets at the expected value of their utilisation: either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Deferred tax assets are assessed yearly and only recognised to the extent that it is more likely than not that they can be utilised in the foreseeable future.

Deferred tax assets and liabilities are offset if the Group has a legal right to offset current tax assets and tax liabilities or intends to settle current tax assets and tax liabilities on a net basis or to realise the assets and settle the liabilities simultaneously.

Uncertain tax positions Ongoing tax disputes are measured at the amount estimated to be required to settle the obligation (more likely than not). The liability is recognised under deferred tax.

WORKING CAPITAL AND CASH FLOW

SECTION 3

3.1 TRADE RECEIVABLES AND CREDIT RISK

EXPOSURE TO CREDIT RISK

In general, we assess the Group's overall exposure to credit risk as low. The Group's customer portfolio is diversified in terms of geography, industry sector and customer size. The Group is not exposed to credit risk related to significant individual customers. In some geographies, mainly southern Europe and Latin America, in recent years the general credit risk has increased for certain specific groups of customers. However, amounts written off as uncollectible have remained at a relatively low level, which was also the case in 2016, where amounts written off was 0.3% of gross trade receivables (2015: 0.2%).

Exposure to credit risk on trade receivables is managed locally in the operating entities and credit limits are set as deemed appropriate for the customer taking into account the customer's financial position and the current market conditions. Generally, the Group does not hold collateral as security for trade receivables.

The maximum credit risk exposure at the reporting date by reportable segments was:

DKK million	2016			2015		
	Gross	Impairment	Carrying amount	Gross	Impairment	Carrying amount
Continental Europe	4,833	(128)	4,705	4,702	(144)	4,558
Northern Europe	3,311	(32)	3,279	3,212	(33)	3,179
Asia & Pacific	2,151	(37)	2,114	2,056	(52)	2,004
Americas	1,245	(43)	1,202	1,051	(28)	1,023
Other countries	8	(1)	7	7	(1)	6
Total	11,548	(241)	11,307	11,028	(258)	10,770

IMPAIRMENT LOSSES

DKK million						
Not past due	9,130	-	9,130	8,817	-	8,817
Past due 1 to 60 days	1,690	(2)	1,688	1,484	(8)	1,476
Past due 61 to 180 days	358	(14)	344	347	(8)	339
Past due 181 to 360 days	114	(28)	86	124	(25)	99
More than 360 days	256	(197)	59	256	(217)	39
Total	11,548	(241)	11,307	11,028	(258)	10,770

DKK million			2016	2015
Impairment losses at 1 January			(258)	(244)
Acquisitions			(2)	(11)
Impairment losses recognised			(71)	(48)
Impairment losses reversed			44	34
Amounts written off			32	21
Reclassification from Provisions			-	(14)
Reclassification to Assets classified as held for			14	4
Impairment losses at 31 December			(241)	(258)

ACCOUNTING POLICY

Trade receivables are recognised initially at fair value and subsequently at amortised cost, less any impairment losses.

Impairment losses are recognised when objective evidence indicates that an individual receivable or a portfolio of receivables with similar risk characteristics is impaired. This is based on an individual review for impairment due to customer insolvency, past due amounts and mathematically computed impairment losses based on classification of debtors, maturity and historical information.

Impairment losses, both individual and collective, are recognised in a separate account unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the receivable directly.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

3.2 OTHER RECEIVABLES

DKK million	2016	2015
Prepayments	949	873
Currency swaps	30	9
Other	943	751
Other receivables	1,922	1,633

Prepayments comprise mainly prepayments to suppliers and sign-on fees related to customer contracts.

Other comprise various receivables such as supplier rebates and bonuses, refunds from customers and other recoverable amounts, receivable sales price from divestments, contract work in progress, outlay for customers, loans to customers, VAT, etc.

ACCOUNTING POLICY

Other receivables are recognised initially at cost and subsequently at amortised cost. Prepayments are measured at cost. Costs relating to sales work and securing contracts are recognised in the income statement as incurred.

3.3 OTHER LIABILITIES

DKK million	2016	2015
Accrued wages, pensions and holiday allowances	4,332	4,387
Tax withholdings, VAT etc.	2,726	2,799
Debt to companies within the ISS Group	1,289	1,339
Prepayments from customers	434	541
Other	3,535	3,301
Other liabilities	12,316	12,367

Other comprise accrued supplier expenses, utilities such as rent, telephone, electricity etc., contingent consideration and deferred payments, accrued interests, fees to advisors and auditors, customer discounts and insurance, etc.

3.4 CHANGES IN WORKING CAPITAL

DKK million	2016	2015
Changes in inventories	(4)	(12)
Changes in receivables	(1,092)	(517)
Changes in payables	967	476
Changes in working capital	(129)	(53)

Changes in receivables The negative development compared to 2015 is mainly related to invoicing of non-portfolio services in the UK, delays in invoicing in Norway and timing differences in the USA.

Changes in payables The positive development compared to 2015 is mainly related to accrued supplier invoices related to a large IFS project in the USA, wage increases in Turkey and timing differences in the Netherlands.

STRATEGIC ACQUISITIONS AND DIVESTMENTS

SECTION 4

4.1 ACQUISITIONS

APUNTO

On 28 October 2016, ISS acquired 100% of the shares in Apunto, a leading catering company in Chile.

The annual revenue is estimated at DKK 116 million (unaudited financial information) based on expectations at the time of the acquisition. In 2016, Apunto contributed revenue of DKK 24 million and operating profit before other items of DKK 1.3 million. Number of employees taken over was approximately 700.

Acquisition-related costs of DKK 3 million have been included in Other income and expenses, net.

The acquisition supports our strategy by strengthening our catering capabilities in the Americas region. Thus, goodwill added on acquisition is attributable mainly to: 1) catering expertise, 2) synergies mainly by enhancing self-delivery possibilities, 3) platform for growth primarily within IFS, and 4) assembled work force.

Based on the provisionally determined fair values of net assets, goodwill amounted to DKK 41 million. Goodwill is not expected to be deductible for income tax purposes.

ACQUISITION IMPACT

DKK million	2016	2015
Customer contracts	19	250
Other non-current assets	2	52
Trade receivables	25	183
Other current assets	8	78
Loans and borrowings	(0)	(104)
Other non-current liabilities	(5)	(54)
Other current liabilities	(30)	(320)
Fair value of net assets acquired	19	85
Goodwill	43	452
Consideration transferred	62	537
Cash and cash equivalents in acquired businesses	(5)	(17)
Cash consideration transferred	57	520
Contingent and deferred consideration	17	(74)
Prepaid acquisitions (Evantec, Germany)	81	-
Acquisition of businesses (cash flow)	155	446

ACQUISITIONS SUBSEQUENT TO 31 DECEMBER 2016

On 1 January 2017, we completed the acquisition of Evantec, a technical and building services company in Germany, with an annual revenue of approximately DKK 352 million (unaudited) and about 800 employees.

On 3 February 2017, we completed the acquisition of SIGNAL, a Danish-based workplace management consulting firm, with an annual revenue of approximately DKK 30 million (unaudited) and 30 employees.

The Group completed no further acquisitions in the period 1 January to 28 February 2017.

In accordance with usual Group procedures, acquisition balances are prepared in the first months following the acquisition. Consequently, final acquisition balances are not available for acquisitions completed subsequent to 31 December 2016.

4.1 ACQUISITIONS (CONTINUED)

SIGNIFICANT ACCOUNTING ESTIMATES

The most significant assets acquired generally comprise goodwill, customer contracts and trade receivables. As no active market exists for the majority of acquired assets, liabilities and contingent liabilities, in particular in respect of intangible assets, management estimates the fair value. The methods applied are based on the present value of future cash flows calculated based on after-tax royalty payments, churn rates or other expected cash flows related to the specific asset. Estimates of fair value are associated with uncertainty and may be adjusted subsequently.

The fair value of customer contracts acquired is based on an evaluation of the conditions relating to the customer contract portfolio and related customer relationships. Measurement is based on a discounted cash flow model based on key assumptions about the estimated split of the acquired revenue in business segments and the related churn rates and profitability of the revenue at the time of the acquisition. Further, management estimates the Weighted Average Cost of Capital (WACC) and a risk premium for the assumed risk inherent in customer contracts.

ACCOUNTING POLICY

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in Other income and expenses, net.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date.

If uncertainties exist at the acquisition date regarding identification or measurement of identifiable assets, liabilities and contingent liabilities or regarding the consideration transferred, initial recognition will take place on the basis of provisionally determined fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have a different fair value at the acquisition date from that first assumed, goodwill is adjusted up until 12 months after the acquisition date and comparative figures are restated accordingly. Thereafter no adjustments are made to goodwill, and changes in estimates of contingent consideration relating to business combinations are recognised under Other income and expenses, net.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all assets acquired and all liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the gain is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Written put options held by non-controlling shareholders are accounted for in accordance with the anticipated acquisition method, i.e. as if the put option has been exercised already. Such options are recognised as Other liabilities initially at fair value. Fair value is measured at the present value of the exercise price of the option.

Subsequent fair value adjustments of put options held by non-controlling interests relating to business combinations effected on or after 1 January 2010 are recognised directly in equity. Subsequent fair value adjustments of put options held by non-controlling interests related to business combinations effected prior to 1 January 2010 are recognised in goodwill. The effect of unwind of discount is recognised under Financial expenses.

4.2 DIVESTMENTS

DIVESTMENTS IN 2016

The Group completed five divestments in 2016 (2015: six divestments):

Company/activity	Country	Service type	Excluded from the income statement	Percentage interest	Annual revenue ¹⁾ (DKK million)	Number of employees ¹⁾
ISS Greenland	Denmark	Country exit	May	100%	87	266
Pest control	Czech Republic and Slovakia	Property	August	Activities	5	11
Grounds control	USA	Landscaping	January 2017	Activities	80	228
Archiving	Norway	Support services	January 2017	Activities	4	3
Security	Finland	Security services	January 2017	100%	508	1,427
Total					684	1,935

¹⁾ Unaudited financial information.

DIVESTMENT IMPACT

DKK million

	2016	2015
Goodwill	154	101
Customer contracts	7	8
Other non-current assets	74	88
Current assets	94	121
Loans and borrowings	(4)	(55)
Other non-current liabilities	(8)	(33)
Other current liabilities	(121)	(68)
Fair value of net assets disposed	196	162
Gain/(loss) on divestment of businesses, net	(23)	313
Divestment costs, net of tax	80	87
Consideration received	253	562
Cash and cash equivalents in divested businesses	(4)	(18)
Cash consideration received	249	544
Contingent and deferred consideration	49	26
Divestment costs paid, net of tax	(111)	(93)
Divestment of businesses (cash flow)	187	477

DIVESTMENTS SUBSEQUENT TO 31 DECEMBER 2016

On 10 January 2017, we completed the divestment of ISS Kloak- & Industriservice, the Danish sewage and industrial services business, with an annual revenue of approximately DKK 208 million (unaudited) and 164 employees.

The Group completed no further divestments in the period 1 January to 28 February 2017.

ACCOUNTING POLICY

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

4.3 DISPOSAL GROUPS

At 31 December 2015, assets classified as held for sale comprised three businesses in the Continental Europe and Northern Europe regions. In 2016, one of these, the security business in Finland, was divested. The divestment resulted in a gain of DKK 53 million, which was recognised in Other income and expenses, net. Sales processes are still ongoing for the other two businesses. In 2016, a reassessment of the fair value of one of the businesses resulted in an impairment loss of DKK 92 million being recognised in Other income and expenses, net with DKK 27 million, in Goodwill impairment with DKK 56 million, in Amortisation/impairment of customer contracts with DKK 11 million and in Income taxes with DKK (2) million.

Additionally in 2016, the continued evaluation of our activities has led to sales process initiation for one additional business in the Asia & Pacific region, and this business was classified as held for sale. The reclassification did not result in any impairment losses. Consequently, at 31 December 2016, assets classified as held for sale comprised three businesses in the Continental Europe, the Northern Europe and the Asia & Pacific regions.

In 2016 and 2015, no cumulative income or expenses were recognised in other comprehensive income related to assets classified as held for sale.

DKK million	2016	2015
Goodwill	864	1,007
Other non-current assets	286	321
Other current assets	475	370
Assets classified as held for sale	1,625	1,698
Other non-current liabilities	101	80
Other current liabilities	325	363
Liabilities classified as held for sale	426	443

SIGNIFICANT ACCOUNTING ESTIMATES

When classifying non-current assets and disposal groups as held for sale management makes estimates of their fair value (the final sales price and expected costs to sell). Depending on the nature of the non-current assets and disposal group's activity, assets and liabilities, the estimated fair value may be associated with different levels of uncertainty and possibly adjusted subsequently. Measurement of the fair value of disposal groups is categorised as Level 3 in the fair value hierarchy as measurement is not based on observable market data.

Management considers intangible assets relating to the disposal groups, taking into consideration how to separate the net assets (including intangible assets) relating to the disposal group from the Group's assets in the continuing business. Impairment of these intangibles, both on initial classification as held for sale and subsequently, is considered. The estimation uncertainty relating to impairment of intangibles in general is described in 4.6, Impairment tests.

ACCOUNTING POLICY

Assets classified as held for sale comprise non-current assets and disposal groups held for sale. Liabilities classified as held for sale are those directly associated with the assets that will be transferred in the transaction. Assets are classified as held for sale when the carrying amount of the assets is expected to primarily be recovered through a sale within 12 months of the reporting date in accordance with a formal plan rather than through continuing use.

Immediately before classification as held for sale, the assets or disposal groups are remeasured in accordance with the Group's accounting policies. Thereafter, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale are not amortised or depreciated.

Impairment losses on initial classification as held for sale, and subsequent gains and losses on remeasurement are recognised in the income statement and disclosed in the notes.

Non-current assets and disposal groups held for sale are presented in separate lines in the statement of financial position and the main elements are specified in the notes. Comparative figures are not adjusted.

4.4 PRO FORMA REVENUE AND OPERATING PROFIT BEFORE OTHER ITEMS

Assuming all acquisitions and divestments in the year were included/excluded as of 1 January, the effect on revenue and operating profit before other items is estimated as follows:

DKK million	2016	2015
Revenue recognised in the income statement	79,177	79,631
Acquisitions	95	65
Divestments	(624)	(435)
Pro forma revenue	78,648	79,261
Operating profit before other items recognised in the income statement	5,113	5,112
Acquisitions	5	6
Divestments	(53)	(54)
Pro forma operating profit before other items	5,065	5,064

For the purpose of estimating pro forma revenue and operating profit before other items, adjustments relating to acquisitions and divestments are based on estimates made by local ISS management in the respective jurisdictions in which the acquisitions and divestments occurred at the time of acquisition and divestment, or actual results where available. Synergies from acquisitions are not included for periods in which the acquisitions were not controlled by the Group. The estimates are based on unaudited financial information.

These adjustments and the computation of total revenue and operating profit before other items on a pro forma basis are presented for informational purposes only. This information does not represent the results the Group would have achieved had the divestments during the year occurred on 1 January. In addition, the information should not be used as the basis for or prediction of any annualised calculation.

4.5 INTANGIBLE ASSETS

DKK million	Goodwill	Customer contracts	Software and other intangible assets	Total
2016				
Cost at 1 January	20,031	4,358	1,399	25,788
Foreign exchange adjustments	(243)	(46)	(3)	(292)
Acquisitions	43	19	0	62
Additions	-	-	184	184
Divestments	(102)	(6)	(27)	(135)
Disposals	-	-	(27)	(27)
Reclassification from/(to) Property, plant and equipment	-	-	(73)	(73)
Reclassification to Assets classified as held for sale	(73)	(21)	(1)	(95)
Cost at 31 December	19,656	4,304	1,452	25,412
Amortisation and impairment losses at 1 January	(2,062)	(3,250)	(898)	(6,210)
Foreign exchange adjustments	(19)	2	2	(15)
Amortisation	-	(347)	(114)	(461)
Impairment losses	(194)	(12)	-	(206)
Divestments	102	6	14	122
Disposals	-	-	23	23
Reclassification (from)/to Property, plant and equipment	-	-	66	66
Reclassification to Assets classified as held for sale	54	32	1	87
Amortisation and impairment losses at 31 December	(2,119)	(3,569)	(906)	(6,594)
Carrying amount at 31 December	17,537	735	546	18,818
2015				
Cost at 1 January	20,340	4,156	1,280	25,776
Foreign exchange adjustments	395	123	4	522
Acquisitions	452	250	5	707
Additions	-	-	176	176
Divestments	(60)	(18)	(7)	(85)
Disposals	-	-	(51)	(51)
Reclassification from/(to) Property, plant and equipment	-	-	8	8
Reclassification to Assets classified as held for sale	(1,096)	(153)	(16)	(1,265)
Cost at 31 December	20,031	4,358	1,399	25,788
Amortisation and impairment losses at 1 January	(2,012)	(3,069)	(823)	(5,904)
Foreign exchange adjustments	15	(94)	2	(77)
Amortisation	-	(249)	(129)	(378)
Impairment losses	(273)	(4)	-	(277)
Divestments	18	17	0	35
Disposals	-	-	41	41
Reclassification to Assets classified as held for sale	190	149	11	350
Amortisation and impairment losses at 31 December	(2,062)	(3,250)	(898)	(6,210)
Carrying amount at 31 December	17,969	1,108	501	19,578

Impairment losses on goodwill related to divestments, see 4.7, Goodwill impairment. In 2016, impairment losses on customer contracts related to divestment of non-core activities in the Czech Republic as well as remeasurement of non-core activities classified as held for sale. In 2015, Impairment losses on customer contracts related to divestments of non-core activities in Belgium and Portugal.

4.5 INTANGIBLE ASSETS (CONTINUED)

ACCOUNTING POLICY

Goodwill is initially recognised at cost and subsequently at cost less accumulated impairment losses. Goodwill is not amortised. Goodwill is attributable mainly to assembled workforce, technical expertise and technological knowhow.

Acquisition-related **customer contracts** are recognised at fair value at the acquisition date and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The value is amortised using the straight-line method based on the estimated useful life of the acquired portfolio which is estimated to range between 11 and 15 years.

Software and other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

The cost of software developed for internal use includes external costs to consultants and software as well as internal direct and indirect costs related to the development. Other development costs for which it cannot be rendered probable that future economic benefits will flow to the Group are recognised in the income statement as and when incurred.

Amortisation is based on the cost of the asset and recognised in the income statement on a straight-line basis over the estimated useful lives of the assets, which are estimated to 5-10 years.

Amortisation methods and useful lives are reassessed at each reporting date and adjusted if appropriate. When changing the amortisation period due to a change in the useful life, the effect on the amortisation is recognised prospectively as a change in accounting estimates.

Please refer to 4.6, Impairment tests, for a description of impairment testing of intangible assets.

4.6 IMPAIRMENT TESTS

IMPAIRMENT TEST RESULTS 2016

The impairment test as per 31 December 2016 did not result in the recognition of any impairment losses on goodwill.

DETERMINATION OF CASH-GENERATING UNITS (CGUs)

Impairment tests are generally carried out per country as this represents the lowest level of cash-generating units (CGUs) to which the carrying amount of intangibles, i.e. goodwill and customer contracts, can be allocated and monitored with any reasonable certainty. This level of allocation and monitoring of intangibles should be seen in the light of the Group's strategy to integrate acquired companies as quickly as possible in order to benefit from synergies. Management of certain countries has been combined to take advantage of similarities in terms of markets, shared customers and cost synergies. In such cases, the countries are regarded as one CGU when performing the impairment tests.

ESTIMATES USED TO MEASURE RECOVERABLE AMOUNT

The recoverable amount of each CGU is determined on the basis of its value-in-use. The value-in-use is established using certain key assumptions as described below. The key assumptions are revenue growth, operating margin and discount rates.

Value-in-use cash flow projections are based on financial budgets approved by management covering the following financial year. Revenue growth and operating margin assumptions applied in the short to medium term (forecasting period) are based on management's expectations regarding the growth and operational development considering all relevant factors including past experience and external sources of information where possible and relevant.

When estimating the CGUs' **margin development** in the forecasting period, past experience and the impact from expected efficiency improvements are taken into consideration. Since 2013, we have accelerated our strategy implementation through GREAT, which among other things include customer segmentation, organisational structure, IFS readiness and excellence projects, e.g. our procurement programme and business process outsourcing (BPO). The expected impact of these initiatives are taken into consideration for the relevant CGUs.

Revenue growth projections in the forecasting period for the individual CGUs are estimated on the basis of expected market development including IFS readiness, impact from Global Corporate Clients contracts and the macroeconomic environment in general. Past experience is taken into consideration as well as the expected impact from local and Group initiatives, such as GREAT, where especially initiatives on customer segmentation, organisational structure and IFS readiness are assumed to affect growth opportunities.

4.6 IMPAIRMENT TESTS (CONTINUED)

Terminal growth rates do not exceed the expected long-term average growth rate including inflation for the country in which the CGU operates.

The country specific **discount rates**, which are calculated net of tax, are generally based on 10-year government bonds of the individual countries. An interest premium is added to adjust for the inconsistency of applying government bonds with a short-term maturity when discounting the estimated future cash flows with infinite maturity.

A **target ratio** of 25/75 (2015: 25/75) between the market value of debt and equity value has been applied in the calculation. As a company based in Europe, the Group assumes the long-term market equity risk premium to be 6.5% (2015: 6.5%).

Uncertainties reflecting past performance and possible variations in the amount or timing of the projected cash flows are generally reflected in the discount rates. Consequently, a country specific risk premium is added to the discount rates to reflect the specific risk associated with each CGU.

SIGNIFICANT ACCOUNTING ESTIMATES

In performing the impairment test management assesses whether the CGU to which the intangibles relate will be able to generate positive net cash flows sufficient to support the value of intangibles and other net assets of the entity.

This assessment is based on estimates of expected future cash flows (value-in-use) made on the basis of financial budgets for the following financial year and estimated discount rates, growth and margin development. The procedure is described in detail in "Estimates used to measure recoverable amount". In recent years, volatility in risk free interest rates has increased, which generally has increased the estimation uncertainty.

ACCOUNTING POLICY

Intangible assets with an indefinite useful life, i.e. goodwill, are subject to impairment testing at least annually or when circumstances indicate that the carrying amount may be impaired. The carrying amount of other non-current assets is tested annually for indications of impairment.

If an indication of impairment exists, the recoverable amount of the asset is determined. The recoverable amount is the higher of the fair value of the asset less anticipated costs of disposal and its value-in-use. The value-in-use is calculated as the present value of expected future cash flows from the asset or the CGU to which the asset belongs.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the CGU to which goodwill is allocated.

An impairment loss is recognised in the income statement in a separate line if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses are only reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

4.6 IMPAIRMENT TESTS (CONTINUED)

CARRYING AMOUNTS AND KEY ASSUMPTIONS

The carrying amount of intangibles, i.e. goodwill and customer contracts, and the key assumptions¹⁾ used in the impairment testing as per 31 December are presented below for each CGU representing more than 5% of the carrying amount of the Group's intangibles or considered to be at high risk of impairment.

DKK million	Carrying amount			Forecasting period		Terminal period		Applied discount rate	
	Goodwill	Customer contracts	Total intangibles	Growth (avg.)	Margin (avg.) ²⁾	Growth	Margin ²⁾	Net of tax	Pre-tax
2016									
UK & Ireland	1,776	270	2,046	2.8%	7.0%	2.5%	7.0%	8.1%	9.4%
France	1,893	-	1,893	2.3%	5.8%	2.5%	6.4%	9.5%	12.3%
Finland	1,691	35	1,726	1.8%	7.7%	2.0%	7.7%	7.6%	9.2%
Australia & New Zealand	1,416	94	1,510	2.3%	5.9%	3.0%	5.9%	9.8%	13.0%
Switzerland	1,223	14	1,237	1.7%	7.6%	2.0%	7.6%	6.3%	7.6%
USA & Canada	1,147	-	1,147	2.8%	4.9%	3.0%	4.9%	10.0%	14.7%
Spain & Portugal	1,067	74	1,141	2.2%	6.2%	2.5%	6.2%	8.6%	10.8%
Netherlands ³⁾	994	-	994	2.5%	4.9%	2.0%	5.0%	8.1%	10.3%
Other	6,330	248	6,578	-	-	-	-	-	-
Total	17,537	735	18,272						
2015									
UK & Ireland	2,117	354	2,471	3.0%	7.3%	2.5%	7.3%	8.6%	10.1%
France	1,900	-	1,900	2.1%	5.1%	2.5%	6.0%	8.1%	13.4%
Finland	1,698	53	1,751	2.0%	7.2%	2.0%	7.2%	8.1%	9.8%
Australia & New Zealand	1,382	112	1,494	2.2%	5.9%	3.0%	5.9%	9.8%	13.2%
USA & Canada	1,167	163	1,330	3.8%	5.0%	3.0%	5.0%	9.8%	14.4%
Switzerland	1,219	19	1,238	1.7%	7.4%	2.0%	7.4%	6.4%	7.8%
Spain & Portugal	1,071	98	1,169	2.1%	6.2%	2.5%	6.3%	8.9%	11.3%
Netherlands ³⁾	998	-	998	2.1%	4.2%	2.0%	5.0%	8.5%	10.7%
Other	6,417	309	6,726	-	-	-	-	-	-
Total	17,969	1,108	19,077						

¹⁾ The key assumptions applied in the impairment tests are used for accounting purposes and should not be considered a forward-looking statement within the meaning of the US Private Securities Litigation Act of 1995 and similar laws in other countries regarding expectations to the future development.

²⁾ Excluding allocated corporate costs and Royalty.

³⁾ The recoverable amount of the CGU equals the carrying amount of the CGU's net assets. Net assets comprise total intangible plus/minus other net assets. At 31 December 2016, the recoverable amount adjusted for other net assets was estimated at DKK 1.0 billion (2015: DKK 1.0 billion).

The Netherlands The assumptions applied for the Netherlands have been prepared based on the general principles described on pp. 56-57. Specifically for the Netherlands, the assumptions are based on management's business plan for improving growth and profit in the course of the forecasting period as laid out last year, but updated based on developments in 2016. In terms of growth, the major part is assumed to come from new IFS contracts as a result of an improved commercial culture and focus being directed towards IFS customers in line with the GREAT initiative. First signs of improvements were seen in 2016, with some important contract wins, e.g. Heineken.

Operating margin is assumed in the range 4.7%-5.0% in the forecasting period. The improvement is mainly a result of implementation of GREAT, including the establishment of a customer-focused organisation in line with the GREAT blueprint. Furthermore, focus on operational excellence on contract level (cost overspend and general contract efficiencies) will contribute positively along with other excellence initiatives under GREAT, such as the procurement programme and BPO.

France The assumptions applied for France have been prepared based on the general principles described on pp. 56-57. Specifically for France, the assumptions are based on management's business plan for improving growth and profit in the course of the forecasting period in continuation of the plan laid out last year and developments in 2016. In terms of growth, increased sales are expected to derive from focused sales initiatives mainly directed at key account and IFS customers in line with GREAT. Initiatives to improve customer retention and customer Net Promoter Score (cNPS) are also expected to support growth. IFS as a share of revenue in France is below Group average and represents an opportunity for growing the business through focus on larger and more complex customers.

4.6 IMPAIRMENT TESTS (CONTINUED)

France (continued)

Operating margin is assumed in the range 4.9%-6.4% in the forecasting period. Following some major divestments in recent years, France is going through a reorganisation process also in light of the ongoing GREAT implementation. Thus, improvements are mainly expected from adapting overhead costs and excellence initiatives like procurement and investments in improved cost transparency. The French tax credit CICE has a significant impact on the margin. The CICE is currently enacted until 31 December 2017, but it is commonly assumed that it will be prolonged or replaced by a new arrangement with a similar financial impact. For 2017, the French government has approved an increase to 7% of all wages no more than 2.5 times the minimum wage (previously 6%).

SENSITIVITY ANALYSIS

A sensitivity analysis on the key assumptions in the impairment testing is presented below. The allowed change represents the percentage points by which the value assigned to the key assumption can change, all other things being equal, before the CGU's recoverable amount equals its carrying amount.

	Forecasting period				Terminal period				Discount rate, net of tax	
	Growth		Margin ¹⁾		Growth		Margin ¹⁾			
	Applied avg. rate	Allowed decrease	Applied avg. rate	Allowed decrease	Applied long-term rate	Allowed decrease	Applied long-term rate	Allowed decrease	Applied rate	Allowed increase
2016										
UK & Ireland	2.8%	>2.8%	7.0%	>3.0%	2.5%	>2.5%	7.0%	>3.0%	8.1%	>3.0%
France	2.3%	>2.3%	5.8%	>3.0%	2.5%	>2.5%	6.4%	2.4%	9.5%	2.7%
Finland	1.8%	>1.8%	7.7%	>3.0%	2.0%	>2.0%	7.7%	>3.0%	7.6%	>3.0%
Australia & New Zealand	2.3%	>2.3%	5.9%	>3.0%	3.0%	>3.0%	5.9%	2.2%	9.8%	2.7%
Switzerland	1.7%	>1.7%	7.6%	>3.0%	2.0%	>2.0%	7.6%	>3.0%	6.3%	>3.0%
USA & Canada	2.8%	>2.8%	4.9%	>3.0%	3.0%	>3.0%	4.9%	1.6%	10.0%	2.3%
Spain & Portugal	2.2%	>2.2%	6.2%	>3.0%	2.5%	>2.5%	6.2%	2.8%	8.6%	>3.0%
Netherlands	2.5%	0.0%	4.9%	0.0%	2.0%	0.0%	5.0%	0.0%	8.1%	0.0%
2015										
UK & Ireland	3.0%	>3.0%	7.3%	>3.0%	2.5%	>2.5%	7.3%	>3.0%	8.6%	>3.0%
France	2.1%	>2.1%	5.1%	>3.0%	2.5%	1.1%	6.0%	1.1%	8.1%	0.9%
Finland	2.0%	>2.0%	7.2%	>3.0%	2.0%	>2.0%	7.2%	>3.0%	8.1%	>3.0%
Australia & New Zealand	2.2%	>2.2%	5.9%	>3.0%	3.0%	>3.0%	5.9%	>3.0%	9.8%	>3.0%
USA & Canada	3.8%	>3.8%	5.0%	>3.0%	3.0%	2.7%	5.0%	1.5%	9.8%	2.0%
Switzerland	1.7%	>1.7%	7.4%	>3.0%	2.0%	>2.0%	7.4%	>3.0%	6.4%	>3.0%
Spain & Portugal	2.1%	>2.1%	6.2%	>3.0%	2.5%	>2.5%	6.3%	2.9%	8.9%	>3.0%
Netherlands	2.1%	0.0%	4.2%	0.0%	2.0%	0.0%	5.0%	0.0%	8.5%	0.0%

¹⁾ Excluding allocated corporate costs and Royalty.

4.7 GOODWILL IMPAIRMENT

DKK million

	2016	2015
Impairment losses identified in impairment tests	-	126
Impairment losses derived from divestment of businesses	194	147
Goodwill impairment	194	273

Impairment losses identified in impairment tests in 2015 related to Brazil due to an update of business plan assumptions and an increase in the discount rate following the significant deterioration of the Brazilian economy in 2015.

Impairment losses derived from divestment of businesses related to the divestment of the remaining landscaping activities in the USA of DKK 55 million, the Group's activities in Greenland of DKK 44 million and the security activities in Ireland of DKK 39 million. Furthermore, remeasurement of businesses classified as held for sale resulted in impairment losses of DKK 56 million. In 2015, the remeasurement of businesses classified as held for sale resulted in impairment losses of DKK 129 million. Furthermore, impairment losses were recognised in connection with the divestment of the landscaping activities in Belgium of DKK 6 million and the temporary labour and staffing activities in Portugal of DKK 12 million.

CAPITAL STRUCTURE

SECTION 5

5.1 EQUITY

CAPITAL MANAGEMENT

The ISS Global Group is indirectly wholly owned by ISS A/S and is therefore part of the ISS A/S Group. Group Treasury manages financing activities and capital structure centrally for the ISS A/S Group as a whole. The ISS Global Group's financing activities and capital structure are not assessed independently of the ISS A/S Group.

The Group monitors the capital structure and evaluates the need for adjustments on an ongoing basis. The Group's objectives for managing capital and what is managed as capital are described in note 5.5, Liquidity risk. The dividend policy and payment of dividends is made subject to the necessary consolidation of equity and the Group's continuing expansion and profitability.

ISS Global A/S (the Group's parent) is a holding company, and its primary assets are shares in its subsidiaries, receivables from its subsidiaries and cash in its bank accounts. ISS Global A/S has no revenue generating operations of its own, and therefore ISS Global A/S's cash flow and ability to service its indebtedness, will primarily depend on the operating performance and financial condition of its operating subsidiaries, and the receipt by ISS Global A/S of funds from its subsidiaries.

SHARE CAPITAL

At 31 December 2016, ISS Global's share capital comprised a total of DKK 180,000,000 shares (2015: 180,000,000) with a nominal value of DKK 1 each. All shares were fully paid and freely transferable.

ISS Global has one class of shares, and no shares carry special rights. Each share gives the holder the right to one vote at our general meetings.

DKK million	Nominal value	
	2016	2015
Share capital at 1 January	180	180
Share capital at 31 December	180	180

DIVIDENDS

In 2016, dividends of DKK 2,185 million (2015: DKK 2,000 million) to ISS World Services A/S, ultimately ISS A/S, were approved on an extraordinary general meeting and paid out in December 2016.

ACCOUNTING POLICIES

Retained earnings is the Group's free reserves, which includes share premium. Share premium comprises amounts above the nominal share capital paid by shareholders when shares are issued by ISS Global A/S.

Translation reserve comprises all foreign exchange differences arising from the translation of financial statements of foreign entities with a functional currency other than DKK as well as from the translation of non-current balances which are considered part of the investment in foreign entities.

On full or partial realisation of a foreign entity where control is lost the foreign exchange adjustments are transferred to the income statement under the same line item as the gain or loss.

Dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). Dividends proposed for the year are shown in a separate reserve under Equity. Interim dividends are recognised as a liability at the date when the decision to pay interim dividend is made.

5.2 LOANS AND BORROWINGS

DKK million	2016	2015
Issued bonds	12,576	12,611
Bank loans	2,423	2,920
Debt to companies within the ISS Group	6,265	5,968
Finance lease liabilities	143	137
Derivatives	-	5
Total	21,407	21,641
Non-current liabilities	14,897	14,926
Current liabilities	6,510	6,715
Loans and borrowings	21,407	21,641
Cash and cash equivalents and other financial items ¹⁾	(6,544)	(7,020)
Net debt	14,863	14,621

¹⁾ Includes securities of DKK 32 million (2015: DKK 28 million), certain receivables from companies within the ISS Group of DKK 2,211 million (2015: DKK 2,473 million) and positive value of currency swaps of DKK 30 million (2015: DKK 9 million). The average effective interest rate related to receivables from companies within the ISS Group was 0.26% (2015: 1.27%).

FAIR VALUE

The fair value of loans and borrowings was DKK 22,020 million (2015: DKK 21,768 million). The fair value of bonds is based on the quoted market price on the Luxembourg Stock Exchange and measurement is categorised as Level 1 in the fair value hierarchy. For the remaining loans and borrowings fair value is equal to the nominal value as illustrated in 5.5, Interest rate risk.

FINANCING FEES

In 2016, financing fees amounting to DKK 2 million (2015: DKK 37 million) have been recognised in loans and borrowings while financing fees of DKK 34 million (2015: DKK 64 million) have been amortised and recognised in financial expenses. Accumulated financing fees recognised in loans and borrowings on 31 December 2016 amounted to DKK 105 million (2015: DKK 137 million).

ACCOUNTING POLICY

Financial liabilities are recognised at the date of borrowing at fair value less related transaction costs paid. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. Any difference between the proceeds initially received and the nominal value is recognised in the income statement under Financial expenses over the term of the loan. Financial liabilities also include the capitalised residual obligations on finance leases, which are measured at amortised cost.

5.3 FINANCIAL INCOME AND EXPENSES

DKK million	2016	2015
Interest income on cash and cash equivalents	44	39
Interest income from companies within the ISS Group	27	29
Foreign exchange gains	13	-
Financial income	84	68
Interest expenses on loans and borrowings	(406)	(462)
Interest expenses from companies within the ISS Group	(13)	(12)
Other bank fees	(68)	(81)
Net interest on defined benefit obligations	(35)	(34)
Amortisation of financing fees	(34)	(37)
Refinancing	-	(27)
Net change in fair value of cash flow hedges	-	(10)
Foreign exchange losses	-	(67)
Financial expenses	(556)	(730)

Interest expenses on loans and borrowings The decrease was mainly a result of lower interest margins combined with lower average net debt in 2016.

Foreign exchange gains and losses mainly related to exchange rate movements on intercompany loans from the parent company to foreign subsidiaries as well as on external loans and borrowings denominated in currencies other than DKK. In addition, fair value adjustments of currency swaps were included.

5.4 FINANCIAL RISK MANAGEMENT

The Group is exposed to a number of financial risks arising from its operating and financing activities, mainly interest rate risk, liquidity risk, currency risk and credit risk. These financial risks are managed centrally by Group Treasury based on the Group Financial Policy, which is reviewed and approved annually by the Board of Directors of ISS A/S. Within the framework of the Group Financial Policy it is on an ongoing basis considered if the financial risk management approach appropriately addresses the exposures.

It is the Group's policy to mitigate risk exposure derived from its business activities. Group policy does not allow taking speculative positions in the financial markets.

The areas exposed to financial risks are mainly loans and borrowings and financial income and expenses. The Group's objectives, policies and processes for measuring and managing the risk exposure related to these items are summarised in the table below and further explained in:

- 5.5 Interest rate risk;
- 5.6 Liquidity risk; and
- 5.7 Currency risk.

In addition, credit risk on trade receivables and currency risk (operational) are described in:

- 3.1 Trade receivables and credit risk; and
- 2.3 Translation and operational currency risk.

The Group has not identified additional financial risk exposures in 2016 compared to 2015.

5.4 FINANCIAL RISK MANAGEMENT (CONTINUED)

FINANCIAL RISK	EXPOSURE	RISK MANAGEMENT POLICY	MITIGATION
Interest rate risk (5.5)	Low risk <ul style="list-style-type: none"> • 84% of the Group's bank loans and bonds carried fixed interest rates at 31 December 2016 (2015: 81%) • Duration of gross external debt (fixed-rate period) of 3.9 years at 31 December 2016 • Exposure primarily related to EUR denominated bank loans with floating rates 	<ul style="list-style-type: none"> • At least 50% of the Group's bank loans and issued bonds must carry fixed interest rates directly or through derivatives • Duration of gross debt (fixed-rate period) shall be 2-6 years 	<ul style="list-style-type: none"> • The balance between fixed and variable interest rates and gross debt duration (fixed-rate period) is measured on a monthly basis to ensure compliance
Liquidity risk (5.6)	Low risk <ul style="list-style-type: none"> • Diversified funding through bank loans and bonds • No short-term maturities at 31 December 2016 	<ul style="list-style-type: none"> • Maintain an appropriate level of short- and long-term liquidity reserves (liquid funds and committed credit facilities) • Maintain a smooth maturity profile in terms of different maturities • Maintain access to diversified funding sources 	<ul style="list-style-type: none"> • Raising capital is managed centrally in Group Treasury to ensure efficient liquidity management • Liquidity is transferred to/from ISS Global A/S, which operates as the internal bank of the Group • For day-to-day liquidity management cash pools have been established in the majority of the local entities
Currency risk (5.7)	Low risk <ul style="list-style-type: none"> • 98.6% (2015: 96.8%) of the Group's loans and borrowings were denominated in EUR or DKK at 31 December 2016 • In addition, exposure relates to intercompany loans from the parent company to foreign subsidiaries and intercompany balances as these are typically denominated in the functional currency of the subsidiary 	<ul style="list-style-type: none"> • All hedging is conducted at Group level • Main policy is to hedge foreign exchange exposures towards EUR or DKK exceeding DKK 5 million. However, some currencies cannot be hedged within a reasonable price range, e.g. ARS and ISK, in which case correlation to a proxy currency is considered and, if deemed appropriate, proxy hedging is applied • Exposure to EUR is monitored but not hedged due to the fixed exchange rate policy between DKK/EUR • Exposure related to translation of net assets to DKK in foreign investments is currently not hedged 	<ul style="list-style-type: none"> • Use of currency swaps to hedge the exposure to currency risk on loans and borrowings (external) and intercompany balances • Exposure on loans and borrowings, intercompany balances and cash and cash equivalents are measured at least on a weekly basis to evaluate the need for hedging currency positions
Credit risk	Low risk <ul style="list-style-type: none"> • Exposure on cash and cash equivalents and securities was DKK 4,334 million at 31 December 2016 (2015: DKK 4,527 million) 	<ul style="list-style-type: none"> • Main policy is to transact only with financial institutions with at least A-1/P-1 credit ratings 	<ul style="list-style-type: none"> • Group Treasury monitors credit ratings on an ongoing basis and approves exceptions to credit rating requirements

5.5 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments, currently bank loans and issued bonds. The Group's exposure towards interest rates is illustrated below, where a breakdown of the Group's loans and borrowings in floating and fixed rates is provided. Currently, the Group does not use interest rate swaps.

For a description of exposure, policy and mitigation, see the overview in 5.4, Financial risk management.

DKK million	Nominal interest rate	Currency	Year of maturity	Nominal value	2016	2015
					Carrying amount	Carrying amount
Issued bonds (fixed interest rate):						
EMTNs (EUR 700 million)	1.125%	EUR	2020	5,204	5,183	5,196
EMTNs (EUR 500 million)	1.125%	EUR	2021	3,717	3,697	3,708
EMTNs (EUR 500 million)	2.125%	EUR	2024	3,717	3,696	3,707
				12,638	12,576	12,611
Bank loans (floating interest rate):						
Senior Unsecured Facilities ¹⁾ :						
Term Facility B (EUR 300 million)	Euribor + 0.85%	EUR	2019	2,230	2,220	2,223
Revolving Credit Facility (EUR 850 million)	Libor + 0.85%	Multi	2019	148	115	521
Bank loans and overdrafts	-	Multi	-	88	88	176
				2,466	2,423	2,920
Intra-group (floating interest rate):						
Debt to companies within the ISS Group ²⁾	Cibor + 0.50%	DKK	2019	6,265	6,265	5,968
				6,265	6,265	5,968

¹⁾ The senior facilities include a margin grid where the margin is dependent on the Group's leverage. The current margin of 0.85% will decrease to 0.65% if leverage is below 2.5x and increase to 1.10% if leverage is above 3x. At 31 December 2016, leverage was 2.1x meaning that as of beginning of March 2017 margin will decrease to 0.65%.

²⁾ The loans are committed until 2019, but classified as current as they are used in the Group's normal operating cycle.

SENSITIVITY ANALYSIS

It is estimated that a general increase in relevant interest rates of 1%-point would have decreased profit for the year and other comprehensive income by DKK 56 million (2015: decreased both items by DKK 58 million).

The estimate was based on loans and borrowings with floating interest rates, i.e. disregarding cash and cash equivalents, as the level at 31 December is typically the highest in the year and not a representative level for the purpose of this analysis. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

5.6 LIQUIDITY RISK

Liquidity risk results from the Group's potential inability or difficulty in meeting the contractual obligations associated with its financial liabilities due to insufficient liquidity.

For a description of exposure, policy and mitigation, see the overview in 5.4, Financial risk management.

LIQUIDITY RESERVES

The Group's liquidity reserves mainly consist of liquid funds (cash and cash equivalents less not readily available or restricted cash) and unused credit facilities. The level of cash and cash equivalents is typically highest at 31 December and not a representative level for the rest of the year. As at 31 December 2016, the Group's liquid reserves consisted of readily available liquid funds of DKK 4,240 million (2015: DKK 4,482 million) and unused revolving credit facilities of DKK 6,005 million (2015: DKK 5,575 million) where the majority is available for drawing until 19 February 2019.

In addition, as of 31 December 2016, ISS had DKK 0.9 billion of other credit facilities of which DKK 0.7 billion was unused. Such facilities comprise mainly other local credit facilities and finance leases, which are not part of the senior unsecured facilities.

DKK 32 million (2015: DKK 28 million) of the total cash position at 31 December 2016 was placed on blocked or restricted bank accounts due to legal circumstances.

COVENANTS

The bank loans are subject to customary undertakings, covenants (including financial covenants) and other restrictions. Financial covenants comprise: i) Debt cover and ii) Interest cover. The financial covenants are calculated on a last-twelve-months basis and reported bi-annually. In the event of a default under those agreements, the debt incurred including accrued interest could be declared immediately due and payable. In 2016, all covenants have been complied with.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

The contractual maturities of financial liabilities, based on undiscounted contractual cash flows, are shown below. The undiscounted contractual cash flows include expected interest payments, estimated based on market expectations at the reporting date.

The risk implied from the values in the maturity table below reflects the one-sided scenario of cash outflows only. Trade payables and other financial liabilities will mainly finance assets such as trade receivables and property, plant and equipment.

DKK million	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
2016								
Loans and borrowings ¹⁾	15,142	16,269	489	235	2,442	5,343	3,807	3,953
Debt to companies within the ISS Group	6,265	6,279	6,279	-	-	-	-	-
Trade payables and other financial liabilities ²⁾	5,748	5,758	5,687	71	-	-	-	-
Total financial liabilities	27,155	28,306	12,455	306	2,442	5,343	3,807	3,953
2015								
Loans and borrowings ¹⁾	15,673	17,062	1,022	239	224	2,437	5,354	7,786
Debt to companies within the ISS Group	5,968	5,983	5,983	-	-	-	-	-
Trade payables and other financial liabilities ²⁾	5,178	5,215	5,108	22	85	-	-	-
Total financial liabilities	26,819	28,260	12,113	261	309	2,437	5,354	7,786

¹⁾ Excluding debt to companies within the ISS Group.

²⁾ Including payable royalties and management fees to ISS World Services A/S.

5.7 CURRENCY RISK

Currency risk is the risk that arises from changes in exchange rates, and affects the Group's result or value of financial instruments. The Group uses currency swaps to hedge the exposure to currency risk. As fair value adjustments of both the hedged item and the derivative financial instrument are recognised in the income statement under financial income and expenses, hedge accounting in accordance with IAS 39 is not applied.

For a description of exposure, policy and mitigation, see the overview in 5.4, Financial risk management.

IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Fluctuations in foreign exchange rates will affect the value of loans and borrowings (external) as well as the income statement as funding is obtained in various currencies. In 2016, changes in foreign exchange rates related to loans and borrowings resulted in a gain of DKK 57 million (2015: loss of DKK 142 million). The impact is derived from loans and borrowings in EUR, which depreciated 0.4% against DKK in 2016.

SENSITIVITY ANALYSIS

It is estimated that a change in relevant foreign exchange rates would have increased/(decreased) net profit and other comprehensive income by the amounts shown below. The analysis is based on the Group's internal monitoring of currency exposure on loans and borrowings, intercompany loans as well as cash and cash equivalents. Further, the analysis is based on foreign exchange rate variances that the Group considered to be reasonably possible at the reporting date and assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

DKK million	Currency exposure (nominal value)	Currency swaps (contractual value)	Total exposure	Sensitivity		
				Increase in foreign ex- change rates	Net profit	Other com- prehensive income
2016						
EUR/DKK	(13,419)	5,151	(8,268)	1%	(83)	(83)
USD/DKK	546	(579)	(33)	10%	(3)	(3)
Other/DKK	612	(542)	70	10%	7	7
Total	(12,261)	4,030	(8,231)			
2015						
EUR/DKK	(12,611)	4,659	(7,952)	1%	(80)	(80)
USD/DKK	734	(928)	(194)	10%	(19)	(19)
Other/DKK	(176)	238	62	10%	6	6
Total	(12,053)	3,969	(8,084)			

GOVERNANCE

SECTION 6

6.1 REMUNERATION TO THE BOARD OF DIRECTORS AND THE EXECUTIVE GROUP MANAGEMENT

The management team of the ISS Global Group formally consists of the Managing Director and the Board of Directors. Members of the management team are not separately remunerated for their duties performed in the ISS Global Group.

As the ISS Global Group has no significant operating activities independently of the ISS A/S Group, it relies on the management team of the ISS A/S Group who has the authority and responsibility for planning, implementing and controlling the ISS Global Group's activities. Consequently, key management personnel of the ISS A/S Group is also considered key management personnel of the ISS Global Group.

Remuneration to key management personnel of ISS A/S Group is specified below:

DKK thousand	2016			2015		
	EGM			EGM		
	Board	EGMB ¹⁾	Corporate Senior Officers	Board	EGMB	Corporate Senior Officers
Base salary and non-monetary benefits	7,645	12,919	40,620	6,758	23,816	43,192
Annual bonus	-	8,343	24,247	-	15,867	21,027
Share-based payments ²⁾	-	6,771	17,547	-	14,822	30,263
Severance payments ³⁾	-	-	-	-	-	34,041
Total remuneration	7,645	28,033	82,414	6,758	54,505	128,523

¹⁾ Heine Dalsgaard stepped down as Group CFO on 31 May 2016. Pierre-François Riolacci replaced Heine Dalsgaard as Group CFO with effect from 7 November 2016.

²⁾ In 2015, DKK 9 million related to senior management changes at Group level was recognised in Other income and expenses, net.

³⁾ Severance payments related to senior management changes at Group level were included in Other income and expenses, net.

6.2 SHARE-BASED PAYMENTS

ISS A/S has two equity-settled share-based incentive programmes; a Long-Term Incentive Programme (LTIP) and a transition share programme (TSP) (one-time grant). Both programmes are equity-settled in ISS A/S, who recharges costs relating to the ISS Group. Furthermore, the Group has a bonus programme, which is partly settled in shares.

In March 2016, the remaining 50% of the PSUs under the TSP vested and the participants received shares in ISS A/S at no cost corresponding to their granted number of PSUs. After this vesting, no further PSUs are outstanding and the programme has lapsed.

6.2 SHARE-BASED PAYMENTS (CONTINUED)

LONG-TERM INCENTIVE PROGRAMME

Members of the EGM of ISS A/S (EGMB and Corporate Senior Officers of the Group), and other senior officers of the Group, were granted a number of PSUs. Upon vesting, each PSU entitles the holder to receive one share at no cost.

The programme will vest on the date of the third anniversary of the grant. PSUs have vesting criteria of total shareholder return (TSR) and earnings per share (EPS), equally weighted. TSR peers are the Nasdaq Copenhagen OMX C20 and a peer group of comparable international service companies.

For the LTIP 2016 (but not previous programmes) participants are compensated for any dividend distributed during time of grant and time of vesting. For the extraordinary dividend in November 2016 it was decided to compensate participants in the existing three LTIP programmes.

CRITERIA	TSR (LTIP 2014-2016)	EPS GROWTH ² (LTIP 2014)	EPS GROWTH ² (LTIP 2015)	EPS GROWTH ² (LTIP 2016)
No vesting	Below median of peer group	Less than 12% annually	Less than 7.5% annually	Less than 6% annually
25% vesting ¹⁾	At median of peer group	12% annually	7.5% annually	6% annually
100% vesting ¹⁾	At upper quartile of peer group or better	18% annually or more	13.5% annually or more	12% annually or more

Peer groups

International service companies: ABM Industries, Adecco, Aramark, Bunzl, Berendsen, Compass Group, Capita, G4S, Interserve, Mitie Group, Randstad, Rentokil Initial, Securitas, Serco, Sodexo.

OMX C20: Comprise companies included in the OMX C20 at the time of grant i.e. A.P. Møller – Mærsk A, A.P. Møller – Mærsk B, Carlsberg, Chr. Hansen Holding, Coloplast, Danske Bank, DSV, FLSmidth & Co, Genmab, GN Store Nord, Jyske Bank, Nordea Bank, Novo Nordisk, Novozymes, Pandora, TDC, Topdanmark (not in 2015 and 2016), Tryg, Vestas Wind Systems, William Demant Holding.

¹⁾ Linear vesting between 25% and 100% vesting.

²⁾ Adjusted earnings per share excluding Other Income and expenses, net. EPS growth is measured as compound annual growth rate (CAGR).

VALUE OF THE PROGRAMMES AND IMPACT IN THE INCOME STATEMENT

	LTIP 2014	LTIP 2015	LTIP 2016	TSP
Total PSUs granted	964,550	785,976	785,043	526,720
Number of participants	141	142	141	36
Fair value of PSUs expected to vest at grant date, DKK million	83	89	106	59
Fair value of PSUs expected to vest at 31 December 2016, DKK million	105	102	94	-
Recognised in the income statement in 2016, DKK million ¹⁾	38	35	24	9
Not yet recognised in respect of PSUs expected to vest, DKK million	8	41	70	-

¹⁾ Hereof DKK 6 million were expensed in ISS A/S and DKK 42 million were expensed in ISS World Services A/S.

APPLIED ASSUMPTIONS AT THE TIME OF GRANT

	LTIP 2014	LTIP 2015	LTIP 2016	TSP
Share price (DKK)	160	219	241	160
Expected volatility	23% ¹⁾	21.9% ¹⁾	24.5% ¹⁾	-
Expected life of grant	3 years	3 years	3 years	1-2 years
Risk-free interest rate	1.7%-2.8%	0.8%-2.0%	0.6%-1.6%	-

¹⁾ Based on observable market data for peer group.

6.2 SHARE-BASED PAYMENTS (CONTINUED)

LTIP - OUTSTANDING PSUs

LTIP 2014 Number of PSUs	EGM		Other senior officers	Total
	EGMB ¹⁾	Corporate Senior Officers		
Outstanding at 1 January 2015	131,914	157,204	663,051	952,169
Transferred	(55,064)	(68,850)	123,914	-
Cancelled	-	-	(25,802)	(25,802)
Outstanding at 31 December 2015	76,850	88,354	761,163	926,367
Granted	749	1,604	10,028	12,381
Transferred	-	32,878	(32,878)	-
Cancelled	(27,125)	(14,606)	(59,574)	(101,305)
Outstanding at 31 December 2016 ²⁾	50,474	108,230	678,739	837,443
LTIP 2015 Number of PSUs				
Granted	57,231	101,157	617,372	775,760
Cancelled	-	-	(9,169)	(9,169)
Outstanding at 31 December 2015	57,231	101,157	608,203	766,591
Granted	558	1,726	7,932	10,216
Transferred	-	26,012	(26,012)	-
Cancelled	(20,200)	(12,419)	(47,452)	(80,071)
Outstanding at 31 December 2016	37,589	116,476	542,671	696,736
LTIP 2016 Number of PSUs				
Granted	54,063	142,823	585,157	782,043
Cancelled	-	(12,539)	(92,923)	(105,462)
Outstanding at 31 December 2016	54,063	130,284	492,234	676,581

¹⁾ Heine Dalsgaard's unvested PSUs under the LTIP were cancelled as he stepped down as Group CFO on 31 May 2016.

²⁾ The PSUs granted as part of the LTIP 2014 programme will vest on 18 March 2017. This is the first vesting of LTIP post the IPO in 2014. Based on the annual EPS and TSR performances for 2014, 2015 and 2016, 96% of the PSUs granted under the LTIP 2014 will vest.

6.2 SHARE-BASED PAYMENTS (CONTINUED)

TSP - OUTSTANDING PSUs

Number of PSUs	EGM			Total
	EGMB	Corporate Senior Officers	Other senior officers	
Outstanding at 1 January 2015	137,786	157,204	231,730	526,720
Transferred	(58,998)	(68,850)	127,848	-
Vested	(36,199)	(40,592)	(159,087)	(235,878)
Cancelled	(3,194)	(3,584)	(27,342)	(34,120)
Outstanding at 31 December 2015	39,395	44,178	173,149	256,722
Transferred	-	9,966	(9,966)	-
Vested	(39,395)	(54,144)	(155,597)	(249,136)
Cancelled	-	-	(7,586)	(7,586)
Outstanding at 31 December 2016	-	-	-	-

DEFERRED BONUS PROGRAMME

ISS A/S has an annual bonus programme under which two-thirds were paid out in cash the following year, while one-third was deferred and settled in restricted share units (RSUs) of which 50% are converted into shares after one year and 50% are converted into shares after two years. There are no performance conditions attached to the RSUs. With effect from 2015, bonuses will be settled entirely in cash.

Number of RSUs	EGM			Total
	EGMB	Corporate Senior Officers	Other senior officers	
Vested	23,965	28,016	-	51,981
Transferred	(11,279)	(8,079)	19,358	-
Outstanding (vested) at 31 December 2015	12,686	19,937	19,358	51,981
Transferred ¹⁾	(2,779)	(1,909)	4,688	-
Paid out	(6,342)	(9,013)	(10,633)	(25,988)
Outstanding (vested) at 31 December 2016	3,565	9,015	13,413	25,993

¹⁾ Heine Dalsgaard's remaining RSUs have been transferred from EGMB to other senior officers as he stepped down as Group CFO on 31 May 2016.

ACCOUNTING POLICY

The value of services received in exchange for granted performance-based share units (PSUs) is measured at fair value at the grant date and recognised in the income statement under staff costs over the vesting period with a corresponding debt to ISS A/S.

The fair value of granted PSUs is measured using a generally accepted valuation model taking into consideration the terms and conditions upon which the PSUs were granted including market-based vesting conditions (TSR condition).

On initial recognition, an estimate is made of the number of PSUs expected to vest. The estimated number is subsequently revised for changes in the number of PSUs expected to vest due to non-market based vesting conditions.

6.3 RELATED PARTIES

PARENT AND ULTIMATE CONTROLLING PARTY

The sole shareholder of ISS Global A/S, ISS World Services A/S, has controlling influence in the Group and is wholly owned by ISS A/S (the ultimate parent).

KEY MANAGEMENT PERSONNEL

The Board of ISS A/S and the EGM of ISS A/S are considered the Group's key management personnel as defined in note 6.1, Remuneration to the Board of Directors and the Executive Group Management.

Apart from remuneration, there were no significant transactions with members of the Board and the EGM in 2016.

OTHER RELATED PARTY TRANSACTIONS

In 2016, the Group had the following transactions with other related parties, which were all made on market terms:

- the Group was charged royalty and management fees from ISS World Services A/S amounting to DKK 1,266 million
- the Group received/paid interest from/to companies within the ISS Group, see 5.3, Financial income and expenses
- the Group's short-term debt to ISS A/S amounted to DKK 6,265 million at 31 December 2016

DIRECTORSHIPS AND EXTERNAL EXECUTIVE POSITIONS OF THE BOARD AND MANAGING DIRECTORS AT 31 DECEMBER 2016

Board of Directors	Board member	Executive position
Jeff Gravenhorst	Chairman of the board of directors of Rambøll Gruppen A/S, deputy chairman of the board of directors of Nets A/S and member of the Confederation of Danish Industry's (DI) Permanent Committee on Business Policies.	None
Pierre-François Riolacci	Member of the board of directors of KLM (Koninklijke Luchtvaart Maatschappij N.V.).	None
Bjørn Raasteen	None	None
Managing Director	Board member	Executive position
Peter Harder Thomsen	None	None

6.4 FEES TO AUDITORS

	2016			2015
DKK million	EY	EY	Non-EY	Total
Statutory audit	24	21	1	22
Other assurance services	1	0	0	0
Tax and VAT advisory services	6	1	11	12
Other services	-	1	3	4
Total	31	23	15	38

Other assurance services comprised mainly work related to the interim financial statements.

Other services comprised among other things work related to acquisitions and divestments such as financial and tax due diligence.

OTHER REQUIRED DISCLOSURES

SECTION 7

7.1 PROPERTY, PLANT AND EQUIPMENT

DKK million	2016			2015		
	Land and buildings	Plant and equipment	Total	Land and buildings	Plant and equipment	Total
Cost at 1 January	104	5,204	5,308	103	5,358	5,461
Foreign exchange adjustments	(3)	(83)	(86)	1	92	93
Acquisitions	-	2	2	33	15	48
Additions	1	646	647	3	743	746
Divestments	(7)	(51)	(58)	-	(27)	(27)
Disposals	(0)	(628)	(628)	(36)	(600)	(636)
Reclassification from/(to) Intangible assets	-	73	73	-	(8)	(8)
Reclassification to Assets classified as held for sale	-	(28)	(28)	(0)	(369)	(369)
Cost at 31 December	95	5,135	5,230	104	5,204	5,308
Depreciation and impairment losses at 1 January	(25)	(3,691)	(3,716)	(39)	(3,810)	(3,849)
Foreign exchange adjustments	(0)	57	57	0	(47)	(47)
Acquisitions	-	-	-	-	(14)	(14)
Depreciation	(3)	(534)	(537)	(2)	(571)	(573)
Divestments	3	28	31	-	12	12
Disposals	0	560	560	16	554	570
Reclassification (from)/to Intangible assets	-	(66)	(66)	-	0	0
Reclassification to Assets classified as held for sale	-	(4)	(4)	0	185	185
Depreciation and impairment at 31 December	(25)	(3,650)	(3,675)	(25)	(3,691)	(3,716)
Carrying amount at 31 December	70	1,485	1,555	79	1,513	1,592
Hereof carrying amount at 31 December of assets held under finance leases	-	166	166	-	150	150

PROPERTY AND EQUIPMENT UNDER OPERATING LEASES

The Group leases a number of properties, vehicles (primarily cars) and other equipment under operating leases. The leases typically run for a period of 2-5 years, with an option to renew the lease after that date.

The disclosed non-cancellable operating lease payments below assume no early termination of any agreement.

DKK million	Year 1	Year 2	Year 3	Year 4	Year 5	After 5 years	Total lease payments
At 31 December 2016	1,157	803	523	329	200	344	3,356
At 31 December 2015	1,217	834	527	319	229	311	3,437

In 2016, DKK 1,757 million (2015: DKK 1,767 million) was recognised as an expense in the income statement in respect of operating leases.

Leasing of cars is primarily entered under an international car fleet lease framework agreement which is valid until end 2018. The majority of the underlying agreements have a lifetime duration of 3-5 years.

7.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**ACCOUNTING POLICY**

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost of assets comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is ready for use. The net present value of estimated liabilities related to dismantling and removing the asset and restoring the site on which the asset is located is added to the cost.

The cost of assets held under finance leases is stated at the lower of fair value of the asset and the net present value of future minimum lease payments. When calculating the net present value, the interest rate implicit in the lease or an approximated rate is applied as the discount rate.

A finance lease is a lease that transfers substantially all risks and rewards of ownership to the lessee. Other leases are classified as operating leases.

Subsequent costs, e.g. for replacing part of an item, are recognised in the carrying amount of the asset if it is probable that the future economic benefits embodied by the item will flow to the Group. The replaced item is transferred to the income statement. All other costs for common repairs and maintenance are recognised in the income statement when incurred.

Depreciation is based on the cost of an asset less its residual value. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The estimated useful life and residual value is determined at the acquisition date. If the residual value exceeds the carrying amount depreciation is discontinued.

Depreciation of property, plant and equipment is recognised in the income statement on a straight-line basis over the estimated useful lives of the assets. Assets under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for current and comparative years are as follows:

Estimated useful life

Buildings	20-40 years
Leasehold improvements	(the lease term) 5-12 years
Plant and equipment	3-10 years

Land is not depreciated.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. When changing the depreciation period or the residual value, the effect on the depreciation is recognised prospectively as a change in accounting estimates.

Gains and losses arising on the disposal or retirement of property, plant and equipment are measured as the difference between the selling price less direct sales costs and the carrying amount, and are recognised in the income statement under Other operating expenses in the year of sale, except gains and losses arising on disposals of property, which are recognised under Other income and expenses, net.

Assets held under operating leases are not recognised in the statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

7.2 PENSIONS AND SIMILAR OBLIGATIONS

DEFINED CONTRIBUTION PLANS

The majority of the Group's pension schemes are defined contribution plans where contributions are paid to publicly or privately administered pension plans on a statutory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Pension costs related to such plans are recognised under Staff costs and amounted to DKK 1,607 million in 2016 (2015: 1,704 million), corresponding to 14% of the Group's pension costs (2015: 16%).

DEFINED BENEFIT PLANS

The Group has a number of defined benefit plans where the responsibility for the pension obligation towards the employees rests with the Group. The largest plans are in Switzerland and the UK accounting for 88% (2015: 85%) of the Group's obligation (gross) and 98% (2015: 95%) of its plan assets.

The defined benefit plans are primarily based on years of service, and benefits are generally determined on the basis of salary and rank. For defined benefit plans the Group assumes the risk associated with future developments in salary, interest rates, inflation, mortality and disability etc.

The majority of the obligations are funded with assets placed in independent pension funds. In some countries, primarily Sweden and France, the obligation is unfunded. For these unfunded plans the retirement benefit obligations amounted to DKK 690 million or 9% of the present value of the gross obligation (2015: DKK 660 million or 9%).

Switzerland Pension plans are governed by the Swiss Federal Law on Occupational retirement, Survivors' and Disability Pension Plans (LPP/BVG), which stipulates that plans must be managed by independent, legally autonomous units.

Plan participants are insured against the financial consequences of retirement, disability and death.

The pension plans are contribution-based plans guaranteeing a minimum interest credit and fixed conversion rates at retirement. Contributions are paid by both the employee and the employer. The plans must be fully funded under the LPP/BVG law on a static basis at all times. In case of underfunding, recovery measures must be taken, such as additional financing from the employer or from the employer and employees, reduction of benefits or a combination of both.

The main pension plan has the legal structure of a foundation responsible for the governance of the plan and for the investment of the assets. The foundation defines the investment strategy and has set up guidelines on allocation between assets.

The pension plans include a risk-sharing element between ISS and the plan participants.

The UK Participants are insured against the financial consequences of retirement and death. The schemes do not provide any insured disability benefits.

The pension plans are plans guaranteeing defined benefit pension at retirement on a final salary basis. Contributions are paid by both the employee and the employer.

The schemes are legally structured as trust-based statutory sectionalised pension schemes. ISS has no control over the operation of the plans or their investments. An independent trustee or external administrator is responsible for the investment of the assets. The trustee or external administrator defines the investment strategy and have set up guidelines on asset allocation.

The majority of the pension plans does not include a risk-sharing element between ISS and the plan participants.

7.2 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

SIGNIFICANT ACCOUNTING ESTIMATES

The present value of defined benefit obligations is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. All assumptions are assessed at the reporting date. Changes in these assumptions may significantly affect the liabilities and pension costs under defined benefit plans. The range and weighted average of these assumptions as well as sensitivities on key assumptions are disclosed in this note.

The discount rates used for calculating the present value of expected future cash flows are based on the market yield of high quality corporate bonds or government bonds with a maturity approximating to the terms of the defined benefit obligations.

ISS participates in multi-employer pension schemes that by nature are defined benefit plans. Some funds are however not able to provide the necessary information in order for the Group to account for the schemes as defined benefit plans and the schemes are therefore accounted for as defined contribution plans. There is a risk that the plans are not sufficiently funded. However, information on surplus or deficit in the schemes is not available.

ACCOUNTING POLICY

Contributions to **defined contribution plans** are recognised as Staff costs when the related service is provided. Any contributions outstanding are recognised as Other liabilities.

Defined benefit plans The Group's net obligation is calculated annually by a qualified actuary using the projected unit credit method. This calculation is done separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The present value less the fair value of any plan assets is recognised under Pensions and similar obligations.

When the calculation results in a potential asset, recognition is limited to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Pension costs are calculated based on actuarial estimates and financial expectations at the beginning of the year. Service costs are recognised under Staff costs and net interest is recognised under Financial expenses. Differences between the expected development in pension assets and liabilities and the realised amounts at the end of the year are designated actuarial gains or losses and are recognised in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognised in the income statement under Staff costs. The Group recognises gains and losses on the settlement when the settlement occurs.

Other long-term employee benefits are recognised based on an actuarial calculation. Service costs and actuarial gains and losses are recognised in the income statement under Staff costs. Interest on long-term employee benefits are recognised under Financial expenses. Other long-term employee benefits comprise jubilee benefits, long-service or sabbatical leave etc.

7.2 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

DKK million	2016			2015		
	Present value of obligation	Fair value of plan assets	Obligation, net	Present value of obligation	Fair value of plan assets	Obligation, net
Carrying amount at 1 January	7,516	5,999	1,517	6,259	5,023	1,236
Current service costs	189	-	189	205	-	205
Interest on obligation/plan assets	108	73	35	134	100	34
Past service costs	(43)	-	(43)	5	-	5
Recognised in the income statement	254	73	181	344	100	244
Actuarial (gains)/losses from demographic assumptions	(109)	-	(109)	(2)	-	(2)
Actuarial (gains)/losses from financial assumptions	324	-	324	144	-	144
Actuarial (gains)/losses due to experience adjustments	75	-	75	214	-	214
Return on plan assets excluding interest income	-	211	(211)	-	101	(101)
Impact from asset ceiling	-	(6)	6	-	(3)	3
Recognised in other comprehensive income	290	205	85	356	98	258
Foreign exchange adjustments	(136)	(118)	(18)	584	520	64
Reclassifications	(142)	(142)	-	5	5	-
Acquisitions and divestments, net	-	-	-	47	51	(4)
Additions from new contracts, net	3	-	3	(1)	(28)	27
Employee contributions	132	132	-	129	129	-
Employer contributions	-	180	(180)	-	217	(217)
Benefits paid	(173)	(101)	(72)	(207)	(119)	(88)
Impact from asset ceiling	-	6	(6)	-	3	(3)
Other changes	(316)	(43)	(273)	557	778	(221)
Carrying amount at 31 December	7,744	6,234	1,510	7,516	5,999	1,517
Other long-term employee benefits			187			210
Reclassification to Liabilities classified as held for sale			(93)			(72)
Accumulated impact from asset ceiling			34			28
Pensions and similar obligations at 31 December			1,638			1,683

Past service costs In 2016, the negative past service costs mainly related to decrease of benefits in Indonesia due to plan amendment.

Actuarial (gains)/losses due to experience adjustments in 2015 mainly related to higher number of employees being eligible for benefits in Indonesia, changed employee mix and higher paid interest on savings capital in Switzerland compared to previous actuarial assumptions.

Contribution to defined benefit plans The Group expects to contribute DKK 240 million in 2017 compared to DKK 238 million in 2016.

7.2 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)**MAJOR CATEGORIES OF PLAN ASSETS (% OF TOTAL PLAN ASSETS)**

	2016	2015
Corporate bonds	36%	40%
Listed shares	32%	30%
Property	12%	9%
Cash and cash equivalents	5%	6%
Government bonds	1%	1%
Other	14%	14%
Total	100%	100%

ACTUARIAL ASSUMPTIONS

Actuarial calculations and valuations are performed annually for all major defined benefit plans. The actuarial assumptions vary from country to country due to local conditions. Discount rates are based on the market yield of high quality corporate bonds or government bonds with a maturity approximating to the terms of the defined benefit obligations.

	2016				2015			
	CHF	GBP	EUR	Other currencies	CHF	GBP	EUR	Other currencies
Discount rates at 31 December	0.6%	2.8%	1.1-2.6%	1.0-8.3%	0.8%	3.9%	1.8-2.4%	1.3-9.9%
Future salary increases	1.0%	1.0%	0.0-3.5%	0.0-10.0%	1.0%	1.9%	0.0-2.6%	0.0-10.0%
Future pension increases	0.0%	3.2%	0.0-2.0%	0.0-1.5%	0.0%	3.0%	0.0-2.0%	0.0-3.0%

SENSITIVITY ANALYSIS

The table below illustrates the sensitivity related to significant actuarial assumptions used in the calculation of the defined benefit obligation recognised at the reporting date. The analysis is based on changes in assumptions that the Group considered to be reasonably possible at the reporting date. It is estimated that the relevant changes in assumptions would have increased/(decreased) the defined benefit obligation by the amounts shown below:

	2016		2015	
DKK million	+0.5%	-0.5%	+0.5%	-0.5%
Discount rate	(524)	591	(487)	550
Future price inflation	90	(84)	126	(114)
Future salary increases	78	(77)	82	(80)
Future pension increases	383	(78)	358	(77)
	+1 year	-1 year	+1 year	-1 year
Life expectancy	180	(179)	157	(157)

The estimated weighted average duration of the defined benefit obligation was 15 years (2015: 14 years) and is split into:

Years	2016	2015
Active employees	14	14
Retired employees	14	14
Deferred vested	22	22
Total employees	15	14

7.3 PROVISIONS

DKK million	Legal and labour-related cases	Self-insurance	Other	Total
Provisions at 1 January 2016	159	217	93	469
Foreign exchange adjustments	14	(2)	7	19
Additional provisions recognised	62	180	56	298
Used during the year	(39)	(210)	(49)	(298)
Reversal of unused provisions	(41)	(2)	(10)	(53)
Unwind of discount and other financial expenses	8	2	0	10
Reclassification to Liabilities classified as held for sale	(2)	-	(6)	(8)
Reclassification (to)/from Other liabilities	6	(1)	1	6
Provisions at 31 December 2016	167	184	92	443
Current	63	78	46	187
Non-current	104	106	46	256

Self-insurance In the UK & Ireland, the USA, Australia and Hong Kong, the Group carries insurance provisions on employers' liability and/or workers compensation. Generally, the provisions for self-insurance are based on valuations from external actuaries. The countries are self-insured up to the following limits:

- UK & Ireland DKK 25 million (2015: DKK 28 million) yearly
- USA DKK 3.5 million (2015: DKK 3.4 million) per claim
- Australia DKK 2.5 million (2015: DKK 2.5 million) per claim
- Hong Kong DKK 27 million (2015: DKK 22 million) yearly

Furthermore, the provision includes liability not insured under the global general liability insurance with a self-insured level of DKK 0.2 million per claim and obligations and legal costs in relation to various insurance cases if not covered by the insurance.

Other comprises various obligations incurred, e.g. restructuring costs, guarantee reserves, dismantling costs, operational issues, closure of contracts and costs of meeting obligations under onerous contracts. At 31 December 2016, provisions for onerous contracts were included with DKK 23 million (2015: DKK 5 million).

SIGNIFICANT ACCOUNTING ESTIMATES

The amount recognised as a provision is management's best estimate of the amount required to settle the obligation. The outcome depends on future events that are uncertain by nature. In assessing the likely outcome of lawsuits and tax disputes etc., management bases its assessment on external legal assistance and established precedents.

ACCOUNTING POLICY

Provisions are recognised if the Group, as a result of a past event has a present legal or constructive obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation. The costs required to settle the obligation are discounted if this significantly impacts the measurement of the liability. The entity's average borrowing rate is used as discount rate.

Restructuring costs are recognised under Provisions when a detailed, formal restructuring plan is announced to the affected parties on or before the reporting date.

Onerous contracts A provision is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

Asset retirement obligation When the Group has a legal obligation to dismantle or remove an asset or restore a site or rented facilities when vacated, a provision is recognised corresponding to the present value of expected future costs. The present value of the obligation is included in the cost of the relevant tangible asset and depreciated accordingly.

7.4 CONTINGENT LIABILITIES

GUARANTEE COMMITMENTS

Indemnity and guarantee commitments (mainly towards public authorities and insurance companies) at 31 December 2016 amounted to DKK 478 million (2015: DKK 480 million).

PERFORMANCE GUARANTEES

The Group has issued performance guarantee bonds for service contracts with an annual revenue of DKK 1,791 million (2015: DKK 1,773 million) of which DKK 1,316 million (2015: DKK 1,280 million) were bank-guaranteed performance bonds. Such performance bonds are issued in the ordinary course of business in the service industry to guarantee towards our customers satisfactory completion of work in accordance with service contracts.

DIVESTMENTS

The Group makes provisions for claims from purchasers or other parties in connection with divestments and representations and warranties given in relation to such divestments. Management believes that provisions made at 31 December 2016 are adequate. However, there can be no assurance that one or more major claims arising out of the Group's divestment of companies will not adversely affect the Group's activities, results of operations and financial position.

LEGAL PROCEEDINGS

The Group is party to certain legal proceedings. Management believes that these proceedings (many of which are labour-related cases incidental to the business) will not have a material impact on the Group's financial position beyond the assets and liabilities already recognised in the statement of financial position at 31 December 2016.

RESTRUCTURING PROJECTS

Restructuring projects, e.g. related to implementation of the strategic initiative GREAT, have been undertaken across different geographies and service areas. Labour laws especially in Europe include restrictions on dismissals and procedural rules to be followed. The procedures applied by ISS could be challenged in certain jurisdictions resulting in liabilities. Management believes that this would not have a material impact on the Group's financial position beyond the assets and liabilities already recognised in the statement of financial position at 31 December 2016.

7.5 OTHER SEGMENT INFORMATION

2016	Conti- nental Europe	Northern Europe	Asia & Pacific	Americas	Other countries	Total segments	Unallo- cated ¹⁾	Elimi- nation ²⁾	Total Group
DKK million									
Operating profit	1,158	1,299	857	(122)	(1)	3,191	(117)	-	3,074
Total assets	18,678	14,191	8,012	3,741	14	44,636	14,766	(15,961)	43,441
Hereof assets classified as held for sale	1,156	258	211	-	-	1,625	-	-	1,625
Additions to non-current assets ³⁾	318	297	159	121	-	895	-	-	895
Total liabilities	10,793	8,129	3,776	2,317	12	25,027	31,883	(15,557)	41,353
Hereof liabilities classified as held for sale	281	47	98	-	-	426	-	-	426

2015									
Operating profit	1,244	1,507	732	(10)	(1)	3,472	(40)	-	3,432
Total assets	18,331	14,744	7,581	3,703	13	44,372	16,198	(16,400)	44,170
Hereof assets classified as held for sale	1,463	235	-	-	-	1,698	-	-	1,698
Additions to non-current assets ³⁾	381	1,060	157	79	-	1,677	-	-	1,677
Total liabilities	10,486	8,428	3,348	2,228	13	24,503	32,646	(15,970)	41,179
Hereof liabilities classified as held for sale	353	90	-	-	-	443	-	-	443

¹⁾ Unallocated assets and liabilities relate to the Group's holding companies and comprise internal and external loans and borrowings, cash and cash equivalents and intra-group balances.

²⁾ Eliminations relate to intra-group balances.

³⁾ Comprise additions to Intangible assets and Property, plant and equipment, including from Acquisitions.

NON-CURRENT ASSETS¹⁾ BY COUNTRY REPRESENTING MORE THAN 5% OF GROUP REVENUE

DKK million	2016	2015
UK & Ireland	2,282	2,761
France	2,139	2,141
Switzerland	1,395	1,396
Spain & Portugal	1,264	1,306
USA & Canada	1,232	1,406
Denmark (ISS A/S's country of domicile)	927	990
Other countries (including unallocated items and eliminations)	11,484	11,588
Total	20,723	21,588

¹⁾ Excluding deferred tax assets.

ACCOUNTING POLICY

The accounting policies of the **reportable segments** are described in 2.1, Segment and revenue information.

7.6 AVERAGE NUMBER OF EMPLOYEES

In 2016, average number of employees was 498,529 (2015: 509,073). The decrease was due to divestments.

7.7 SUBSEQUENT EVENTS

Acquisitions and divestments completed in the period 1 January to 28 February 2017 are listed in 4.1, Acquisitions and 4.2, Divestments, respectively.

On 3 February 2017, we signed an agreement to divest our security activities in Ireland. The divestment supports our strategy to focus on geographies and services where we see the greatest opportunities for customer growth and profitability.

Other than as set out above or elsewhere in these consolidated financial statements, we are not aware of events subsequent to 31 December 2016, which are expected to have a material impact on the Group's financial position.

7.8 NEW STANDARDS AND INTERPRETATIONS NOT YET IMPLEMENTED

IASB has published the following new standards, amendments to existing standards and interpretations that are not yet mandatory for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2016:

- IFRS 15 "Revenue from Contracts with Customers"; and
- IFRS 9 "Financial Instruments".

In addition IASB has published the following new standards, amendments to existing standards and interpretations, which are not yet adopted by the EU at 31 December 2016:

- Amendments to IFRS 9 "Financial Instruments", IFRS7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement";
- IFRS 16 "Leases";
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures": Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IAS 12 "Income Taxes": Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IAS 7 "Financial instruments: Disclosures": Disclosure Initiative;
- Clarifications to IFRS 15 "Revenue from Contracts with Customers";
- Amendments to IFRS 2 "Share-based payments": Classification and Measurement of Share-based Payment Transactions;
- Annual improvements to IFRS 2014-2016 Cycle; and
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration".

The Group expects to adopt the new standards and interpretations when they become mandatory. The standards and interpretations that are approved with different effective dates in the EU than the corresponding effective dates under IASB will be early adopted so that the implementation follows the effective dates under IASB.

IFRS 15 "Revenue from Contracts with Customers" (superseding all current revenue recognition requirements under IFRS) will be effective for the financial year beginning on 1 January 2018. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

In 2016, a process was commenced to analyse and evaluate the impact of the new standard. Based on our preliminary assessment, the new standard will result in some new disclosures, e.g. on contract balances, but is expected to have a limited impact on recognition and measurement. The evaluation will be finalised in 2017.

IFRS 16 "Leases" (superseding IAS 17) will be effective for the financial year beginning on 1 January 2019. The new standard significantly changes the accounting treatment of leases currently treated as operating leases, in that lessees, with a few exceptions, should recognise all types of leases as assets in the statement of financial position and the related lease obligations as liabilities. The annual cost of the lease, which will comprise two elements – depreciation and interest expense – will be charged to the lessee's income statement. Currently, operating lease cost is recognised in a single amount under Other operating expenses. Similarly, operating lease payments will be presented in the cash flow statement in two lines – Interest paid and Other financial payments. Currently, operating lease payments are presented as part of Cash flow from operating activities as they are included in Operating profit before other items.

Our business model is based on leasing, rather than owning property, vehicles (cars) and equipment, primarily under operating leases. We have therefore entered into a significant number of operational lease agreements across the Group, e.g. for our more than 20,000 cars. Expectedly, the new standard will have a significant impact on recognition and measurement in the consolidated financial statements.

In 2016, a process was commenced to analyse and evaluate the impact of the new standard. Being a decentralised company with leased equipment across our more than 50 countries, the evaluation process is extensive and involves a significant number of people. The analysis will continue in 2017 and is expected to be finalised in 2018.

Except as mentioned above for IFRS 16 "Leases", based on the current business setup and level of activities, none of the standards and interpretations are expected to have a material impact on the recognition and measurement in the consolidated financial statements of the Group.

7.9 GROUP COMPANIES

Below the Group's significant subsidiaries, associates and joint ventures are presented per region. Together these are referred to as "Companies within the ISS Group".

CONTINENTAL EUROPE

Austria

ISS Austria Holding GmbH	100%
ISS Facility Services GmbH	100%
ISS Ground Services GmbH	51%

Belgium & Luxembourg

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

Czech Republic

ISS Facility Services s.r.o	100%
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Estonia

ISS Haldus OÜ	100%
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France

Extincteurs Haas SAS	100%
GIE ISS Services	100%
ISS Facility Management SAS	100%
ISS Holding Paris SAS	100%
ISS Hygiene & Prevention SAS	100%
ISS Logistique et Production SAS	100%
ISS Proprete SAS	100%

Germany

ISS Automotive Services GmbH	100%
ISS Facility Services GmbH	100%
ISS Facility Services Nord GmbH	100%
ISS Facility Services Süd GmbH	100%
ISS IT & Business Services GmbH	100%
ISS Pharma Services GmbH	100%
ISS VSG GmbH	100%

Greece

ISS Facility Services S.A.	100%
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Hungary

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

Israel

Catering Ltd.	100%
ISS Ashmoret Ltd.	100%
ISS Integrated Facility Service Management Ltd.	100%
ISS Israel Comprehensive Business Services Ltd.	100%
Norcat Ltd.	100%
Norfolk International Ltd.	100%

Italy

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

ISS Catering Services B.V.	100%
ISS Cure & Care B.V.	100%
ISS Holding Nederland B.V.	100%
ISS Integrated Facility Services B.V.	100%
ISS Nederland B.V.	100%
ISS Security & Services B.V.	100%

Poland

ISS Facility Services Sp. Z o.o.	100%
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Romania

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

Russia

Facility Services RUS LLC	100%
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Slovakia

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

ISS Facility Services d.o.o.	100%
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Spain & Portugal

Integrated Service Solutions, S.L.	100%
ISS Facility Services, S.A.	100%
ISS Soluciones de Seguridad, S.L.	100%
ISS Facility Services, Lda.	100%

Switzerland

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

Turkey

ISS Hazir Yemek Üretim ve Hizmet A.Ş.	90% ³⁾
ISS Proser Koruma ve Güvenlik Hizmetleri A.Ş.	90% ³⁾
ISS Tesis Yönetim Hizmetleri A.Ş.	90% ³⁾

NORTHERN EUROPE

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

ISS Facility Services A/S	100%
ISS Kloak- & Industriservice A/S	100%
ISS World Services A/S	100%
ISS Global A/S	100%
ISS Global Management A/S	100%
ISS Holding France A/S	100%
ISS Lending A/S	100% ⁴⁾

Finland

ISS Palvelut Holding Oy	100%
ISS Palvelut Oy	100%
ISS Proko Oy	100%
Opset Oy	76% ¹⁾

Iceland

ISS Ísland ehf.	100%
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Norway

ISS Facility Services AS	100%
ISS Holding AS	100%
ISS Management AS	100%
ISS Serveringspartner AS	100%
ISS Service Management AS	100%
NSB Trafikkservice AS	45% ¹⁾

Sweden

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

UK & Ireland

ISS Mediclean Ltd.	100%
ISS Technical Services UK LTD	100%
ISS Technical Solutions LTD	100%
ISS UK Holding Ltd.	100%
ISS UK Ltd.	100%
Spectrum Franchising Ltd.	100%
ISS Ireland Ltd.	100%

7.9 GROUP COMPANIES

ASIA & PACIFIC

Australia & New Zealand

ISS Catering Services Pty Ltd.	100%
ISS Facility Services Australia Ltd.	100%
ISS Facility Services Pty Ltd.	100%
ISS Health Services Pty Ltd.	100%
ISS Holdings Pty Ltd.	100%
ISS Hospitality Pty Limited	100%
ISS Integrated Services Pty Ltd.	100%
ISS Management Pty Limited	100%
ISS Property Services Pty Ltd.	100%
ISS Security Pty Ltd.	100%
Pacific Invest December 2004 Pty Ltd.	100%
Pacific Service Solutions Pty Ltd.	100%
ISS Facilities Services Ltd.	100%
ISS Holdings NZ Ltd.	100%

Brunei

ISS Facility Services Sdn. Bhd.	100%
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China

ISS Facility Services (Shanghai) Ltd.	100%
ISS Facility Services (Tianjin) Ltd.	100%
Shanghai B&A Security Service Co., Ltd.	100%

Hong Kong

Hung Fat Cleaning Transportation Co., Ltd.	100%
ISS Adams Secuforce Ltd.	100%
ISS China Holdings I Ltd.	100%
ISS China Holdings Ltd.	100%
ISS EastPoint Properties Ltd.	100%
ISS EastPoint Property Management Ltd.	100%
ISS Environmental Services (HK) Ltd.	100%
ISS Facility Services China Ltd.	100%
ISS Facility Services Ltd.	100%
ISS Greater China Ltd.	100%
ISS Mediclean (HK) Ltd.	100%
ISS Pan Asia Security Services Ltd.	100%
JSL Ltd.	100%
Silvertech E&M Engineering Co., Ltd.	100%

India

Innovative and Payroll Advisory Services Pvt. Ltd.	49% ²⁾
ISS Facility Services (India) Pvt. Ltd.	100%
ISS SDB Security Services Pvt. Ltd.	49% ²⁾
Modern Protection & Investigations Ltd.	49% ²⁾

Indonesia

PT ISS Facility Services	49% ²⁾
PT ISS Indonesia	100%
PT ISS Jasa Fasilitas	0% ²⁾
PT ISS Parking Management	100%

Japan

Nihon ISS KK	100%
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Malaysia

ISS Facility Services Sdn. Bhd.	30% ²⁾
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Philippines

ISS Facility Services Phils., Inc.	100%
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Singapore

ISS Catering Services Pte. Ltd.	100%
ISS Facility Services Private Limited	100%
ISS Hydroculture Pte. Ltd.	100%
ISS M&E Pte. Ltd.	100%

Taiwan

ISS Facility Services Ltd.	100%
ISS Security Ltd.	100%

Thailand

ISS Facility Services Co., Ltd.	100%
ISS Security Services Co., Ltd.	100%
ISS Support Services Co., Ltd.	100%

AMERICAS

Argentina

ISS Argentina S.A.	100%
ISS Facility Services S.R.L.	100%
ISS Food S.A.	100%

Brazil

ISS Servisystem do Brasil Ltda.	100%
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Chile

Apunto Servicios de Alimentacion S.A.	100%
ISS Facility Services S.A.	100%
ISS Servicios Generales Ltda.	100%
ISS Servicios Integrales Ltda.	100%

Mexico

ISS Centro América, S de RL de CV	100%
ISS Facility Services, SA de CV	100%

Uruguay

ISS Uruguay S.A.	100%
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USA & Canada

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

Notes

¹⁾ Associate

²⁾ By virtue of the governance structure, the Group has the power to govern the financial and operating policies of the company.

³⁾ The non-controlling shareholder holds a put option which is accounted for as if the put option has already been exercised. Accordingly, the subsidiary is consolidated with no non-controlling interest.

⁴⁾ ISS Lending A/S applies §78a of the Danish Financial Statements Act. Consequently, their annual report is prepared in accordance with the requirements for Class B companies. ISS Global A/S is liable for all ISS Lending A/S's current and future obligations.

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INCOME STATEMENT OF THE PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	Note	2016	2015
Revenue	3	28	45
Other operating income and expenses, net	4	(69)	8
Operating profit		(41)	53
Income from subsidiaries and joint ventures	7	3,627	2,610
Financial income	5	221	243
Financial expenses	5	(348)	(502)
Profit before tax		3,459	2,404
Income taxes	6	(20)	8
Net profit		3,439	2,412
Attributable to:			
The owner of ISS Global A/S		3,439	2,412
Net profit		3,439	2,412

STATEMENT OF COMPREHENSIVE INCOME OF THE PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	2016	2015
Net profit	3,439	2,412
Items to be reclassified to the income statement in subsequent periods:		
Fair value adjustment of hedges, net	-	(1)
Fair value adjustment of hedges, net, transferred to Financial expenses	-	10
Tax	-	(2)
Other comprehensive income	-	7
Comprehensive income	3,439	2,419
Attributable to:		
The owner of ISS Global A/S	3,439	2,419
Comprehensive income	3,439	2,419

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	Note	2016	2015
Operating profit		(41)	53
Changes in working capital		46	(194)
Changes in provisions		57	-
Interest received from companies within the ISS Group		195	242
Interest paid to companies within the ISS Group		(42)	(64)
Interest paid, external		(220)	(234)
Corporate tax and joint taxation contribution (paid)/received, net		(8)	(9)
Cash flow from operating activities		(13)	(206)
Payment in respect of earn-out		(18)	(26)
Capital increase in subsidiaries and joint ventures	7	(212)	(2,398)
Repayment of capital from subsidiaries and joint ventures	7	-	45
Proceeds from sale of subsidiaries and joint ventures	7	3	513
Dividends received from subsidiaries and joint ventures	7	3,119	2,216
Cash flow from investing activities		2,892	350
Proceeds from borrowings		-	4,860
Repayment of borrowings		-	(4,645)
Other financial payments, net		(159)	(736)
Dividends paid to the shareholder		(2,185)	(2,000)
Payments (to)/from companies within the ISS Group, net		(1,141)	3,487
Cash flow from financing activities		(3,485)	966
Total cash flow		(606)	1,110
Cash and cash equivalents at 1 January		1,800	690
Total cash flow		(606)	1,110
Foreign exchange rate adjustments		(21)	-
Cash and cash equivalents at 31 December		1,173	1,800

STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

AT 31 DECEMBER

DKK million	Note	2016	2015
ASSETS			
Investments in subsidiaries and joint ventures	7	24,074	23,357
Receivables from companies within the ISS Group		3,590	3,448
Deferred tax assets	8	17	16
Non-current assets		27,681	26,821
Receivables from companies within the ISS Group		5,604	5,551
Other receivables		181	190
Cash and cash equivalents		1,173	1,800
Current assets		6,958	7,541
Total assets		34,639	34,362
EQUITY AND LIABILITIES			
Total equity		5,840	4,586
Loans and borrowings	9	14,796	14,833
Provisions		57	-
Non-current liabilities		14,853	14,833
Loans and borrowings	9	13,519	14,552
Trade payables		0	18
Other liabilities		427	373
Current liabilities		13,946	14,943
Total liabilities		28,799	29,776
Total equity and liabilities		34,639	34,362

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

1 JANUARY – 31 DECEMBER

2016

DKK million

	Share capital	Retained earnings	Hedging reserve	Total
Equity at 1 January	180	4,406	-	4,586
Net profit	-	3,439	-	3,439
Comprehensive income	-	3,439	-	3,439
Dividends paid to the shareholder	-	(2,185)	-	(2,185)
Transactions with the owner	-	(2,185)	-	(2,185)
Changes in equity	-	1,254	-	1,254
Equity at 31 december	180	5,660	-	5,840

2015

Equity at 1 January	180	4,005	(18)	4,167
Net profit	-	2,412	-	2,412
Other comprehensive income	-	(11)	18	7
Comprehensive income	-	2,401	18	2,419
Dividends paid to the shareholder	-	(2,000)	-	(2,000)
Transactions with owner	-	(2,000)	-	(2,000)
Changes in equity	-	401	18	419
Equity at 31 December	180	4,406	-	4,586

1 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of ISS Global A/S have been prepared in accordance with IFRS as adopted by the EU and additional requirements of the Danish Financial Statements Act. In addition, the financial statements have been prepared in compliance with the IFRSs issued by the IASB.

CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies are described in section 1 to the Group's consolidated financial statements.

ACCOUNTING POLICIES

With the exception of the items described below, the accounting policies for ISS Global A/S are identical to the Group's accounting policies, which are described in the notes to the Group's consolidated financial statements.

Income from subsidiaries and joint ventures comprises dividends, impairment losses, reversal of prior years' impairment losses and gains and losses from divestment of subsidiaries and joint ventures. Dividends are recognised in the income statement in the financial year in which the dividend is declared. If dividends declared exceed the total comprehensive income for the year, an impairment test is performed.

Investments in subsidiaries and joint ventures are measured at cost, which comprises consideration transferred measured at fair value and any directly attributable transaction costs. If there is indication of impairment, an impairment test is performed as described in the accounting policies in 4.6 to the Group's consolidated financial statements. Where the recoverable amount is lower than the cost, investments are written down to this lower value. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the recoverable amount does not exceed the original cost.

Tax As required by Danish legislation ISS Global A/S is jointly taxed with all Danish resident subsidiaries. Joint taxation contributions to/from jointly taxed companies are recognised in the income statement under Income taxes and in the statement of financial position under Receivables from or Debt to companies within the ISS Group.

Companies which utilise tax losses in other companies pay joint taxation contribution to ISS A/S (the administration company) equivalent to the tax base of the tax losses utilised. Companies whose tax losses are utilised by other companies receive joint taxation contributions from ISS A/S equivalent to the tax base of the tax losses utilised (full absorption).

2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

future events that affected the application of ISS Global A/S's accounting policies and the reported amounts of assets, liabilities, income and expenses, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Estimates and assumptions are reviewed on an ongoing basis and have been prepared taking macroeconomic developments into consideration, but still ensuring that one-off effects which are not expected to exist in the long term do not affect estimation and determination of these key factors, including discount rates and expectations of the future.

Significant accounting estimates and judgements relating to the applied accounting policies for ISS Global A/S are the same as for the Group to the extent of similar accounting items, see section 1 in the Group's consolidated financial statements for a description. The specific risks for ISS Global A/S are described in the notes to the financial statements of the parent company.

Investments in subsidiaries and joint ventures are tested for impairment when there is an indication that the investments may be impaired. The assessment of whether there is an indication of impairment is based on both external and internal sources of information such as performance of the subsidiaries and joint ventures, significant decline in market values etc.

3 REVENUE

Revenue relates to rendering of services and has been determined based on the stage of completion method and relates to activities managed by the Global Corporate Clients organisation.

4 OTHER OPERATING INCOME AND EXPENSES, NET

In 2016, a provision of DKK 57 million was recognised related to the guarantee issued by ISS Global A/S to its subsidiary ISS Lending A/S to cover losses on an intercompany receivable with ISS Brazil.

5 FINANCIAL INCOME AND EXPENSES

DKK million	2016	2015
Interest income on cash and cash equivalents	0	0
Interest income from companies within the ISS Group	200	243
Foreign exchange gain	21	-
Financial income	221	243
Interest expenses on loans and borrowings	(270)	(291)
Interest expenses to companies within the ISS Group	(42)	(64)
Amortisation of financing fees	(34)	(37)
Refinancing	-	(27)
Other bank fees	(2)	(0)
Net change in fair value of cash flow hedges transferred from equity	-	(10)
Foreign exchange losses	-	(73)
Financial expenses	(348)	(502)

Foreign exchange gains and losses mainly related to exchange rate movements on intercompany loans to foreign subsidiaries as well as on external loans and borrowings denominated in currencies other than DKK. In addition, fair value adjustments of currency swaps were included.

6 INCOME TAXES

DKK million	2016	2015
Current tax	6	3
Deferred tax	1	11
Adjustments relating to prior years, net	(27)	(6)
Income taxes	(20)	8

EFFECTIVE TAX RATE

In %	2016	2015
Statutory income tax rate	22.0 %	23.5 %
Income from subsidiaries and joint ventures	(23.1)%	(25.5)%
Adjustments relating to prior years, net	0.8 %	0.3 %
Non-tax deductible expenses	0.9 %	1.4 %
Effective tax rate	0.6 %	(0.3)%

Non-tax deductible expenses includes the impact from interest limitation tax rules and non-deductible withholding taxes.

7 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

DKK million	2016	2015
Cost at 1 January	29,345	27,109
Additions ¹⁾	212	2,432
Repayment of capital	-	(45)
Disposals	-	(151)
Cost at 31 December	29,557	29,345
Revaluation at 1 January	(5,988)	(6,023)
Impairment losses	(142)	(551)
Reversal of prior years' impairment losses	647	586
Revaluation at 31 December	(5,483)	(5,988)
Carrying amount at 31 December	24,074	23,357

¹⁾ In 2015, DKK 34 million was related to a non-cash transaction.

INCOME FROM SUBSIDIARIES AND JOINT VENTURES

DKK million	2016	2015
Received dividends	3,119	2,216
Proceeds from sale of subsidiaries and joint ventures	3	510
Carrying amount of disposed subsidiaries and joint ventures	-	(151)
Impairment losses	(142)	(551)
Reversal of prior years' impairment losses	647	586
Income from subsidiaries and joint ventures	3,627	2,610

7 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

ADDITIONS

In 2016, ISS Global A/S made significant capital increases in ISS Holding OÜ (Estonia) of DKK 74 million, ISS Sulamericana Brasil Ltda. (Brazil) of DKK 54 million and ISS Chile S.A (Chile) of DKK 52 million as well as minor capital increases in a number of other subsidiaries amounting to DKK 32 million.

DISPOSALS

There was no disposals of shares in 2016. In 2015, the CMC call centre activities owned by ISS Tesis Yönetim Hizmetleri A.Ş. (Turkey) was spun off into a new company CMC Hizmetleri Sanayi ve Ticaret A.Ş. The shares were subsequently sold for a net proceed of DKK 510 million, resulting in a net gain of DKK 359 million.

IMPAIRMENT LOSSES AND REVERSAL OF PRIOR YEARS' IMPAIRMENT LOSSES

The recoverable amount of investments in subsidiaries and joint ventures is determined on the basis of the value-in-use adjusted for net debt. Value-in-use applied in the impairment test is equal to value-in-use established for the Group, see 4.6 to the consolidated financial statements.

In the table below the recognised impairment losses for 2016 are specified:

DKK million	Impairment loss	Recoverable amount	Applied discount rate, net of tax
Brazil	(54)	(57)	18.8%
Netherlands	(51)	445	8.1%
Hungary	(37)	38	11.1%
Impairment losses	(142)		

The impairment loss recognised for Brazil was primarily driven by a decrease in value-in-use due to a continued deterioration of the profitability and contract exits in certain business segments following structural adjustments to the business platform during 2016. The Netherlands continues to perform in line with the business plan and thus the impairment loss was driven by an increase in the net debt position. The impairment loss for Hungary was caused by a deterioration in the value-in-use following the termination of several public contracts and a general decline in profitability.

In 2015, the impairment loss of DKK 551 million related to Brazil of DKK 388 million (discount rate, net of tax 23.4%), Netherlands of DKK 69 million (discount rate, net of tax 8.5%), Argentina of DKK 48 million (discount rate, net of tax 41.0%), New Zealand of DKK 19 million (discount rate, net of tax 11.0%), Russia of DKK 16 million (discount rate, net of tax 17.0%) and Uruguay of DKK 11 million (discount rate, net of tax 13.0%).

In the table below reversal of prior years' impairment losses for 2016 are specified:

DKK million	Reversal of prior years' impairment losses	Recoverable amount	Applied discount rate, net of tax
France	580	1,661	9.5%
Mexico	48	86	14.7%
Australia & New Zealand	19	1,660	9.8%
Reversal of prior years' impairment losses	647		

The reversal of prior years' impairment losses for France was mainly due to an increase in the value-in-use following an update in the assumptions in the business plan primarily due to an increase in the CICE and a decrease in the tax rate. The reversal for Mexico is driven by the combined impact from an increase in the value-in-use following significant contract wins and an improvement in the net debt position. Prior years' impairment losses recognised for Australia & New Zealand have been fully reversed in 2016 following the merger of Australia and New Zealand into one CGU.

In 2015, reversal of prior years' impairment losses amounted to DKK 586 million and related to Germany of DKK 578 million and Ireland of DKK 8 million.

SUBSIDIARIES AND JOINT VENTURES

For a list of directly owned subsidiaries and joint ventures, see note 14, Subsidiaries and joint ventures.

8 DEFERRED TAX

MOVEMENTS IN DEFERRED TAX

DKK million

	2016	2015
Deferred tax assets at 1 January	16	5
Adjustments relating to prior years, net	1	-
Tax on profit before tax	0	11
Deferred tax assets at 31 December	17	16

Deferred tax assets relates to loans and borrowings. ISS Global A/S has no recognised or unrecognised deferred tax assets regarding tax losses carried forward.

9 LOANS AND BORROWINGS

DKK million

	2016	2015
Issued bonds	12,576	12,611
Bank loans	2,198	2,179
Debt to companies within the ISS Group	13,541	14,595
Total	28,315	29,385
Non-current liabilities	14,796	14,833
Current liabilities	13,519	14,552
Loans and borrowings	28,315	29,385
Cash and cash equivalents and other financial items ¹⁾	(10,375)	(10,779)
Net debt	17,940	18,606

¹⁾ Includes certain receivables from companies within the ISS Group of DKK 9,188 million (2015: DKK 8,970 million) and positive value of currency swaps of DKK 14 million (2015: DKK 9 million). The average interest rate related to receivables from companies within the ISS Group was 1.56% (2015: 1.89%).

FAIR VALUE

The fair value of loans and borrowings amounted to DKK 28,927 million (2015: DKK 29,512 million). The fair value of bonds is based on the quoted market price on the Luxembourg Stock Exchange and measurement is categorised as Level 1 in the fair value hierarchy. For the remaining part of the loans and borrowings fair value is equal to the nominal value as illustrated in 12, Financial risk management.

FINANCING FEES

In 2016, financing fees amounting to DKK 2 million (2015: DKK 37 million) have been recognised in loans and borrowings while financing fees of DKK 34 million (2015: DKK 64 million) have been amortised and recognised in financial expenses. Accumulated financing fees recognised in loans and borrowings on 31 December 2016 amounted to DKK 105 million (2015: DKK 137 million).

10 REMUNERATION TO THE BOARD OF DIRECTORS AND THE EXECUTIVE GROUP MANAGEMENT

Key management personnel of the Group as defined in 6.1 to the consolidated financial statement are also considered key management personnel of the parent.

Remuneration to key management personnel is specified in 6.1 to the Group's consolidated financial statements.

11 CONTINGENT LIABILITIES

SENIOR FACILITY AGREEMENT

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

COMMITMENT VEHICLE LEASES

Leasing of cars in the Group is primarily entered under an international car fleet lease framework agreement which is valid until end 2018. The framework agreement contains a quarterly option for the Group to terminate the fleet of an entire country or the entire fleet under the framework agreement with four weeks notice subject to payment of a termination amount. The majority of the underlying agreements have a lifetime duration of 3-5 years. ISS Global A/S has issued a guarantee for all payments from companies within the ISS Group. The total contingent liability amounted to DKK 1,113 million as per 31 December 2016 (2015: DKK 1,088 million).

PARENT COMPANY GUARANTEES

ISS Global A/S has credit facilities in place totalling DKK 300 million (2015: DKK 300 million) which can be used to issue guarantees for subsidiaries' local bank overdrafts. As per 31 December 2016, DKK 182 million was utilised (2015: DKK 270 million). Furthermore, ISS Global A/S has issued parent guarantees and performance bonds for various subsidiaries' financial liabilities amounting to DKK 2,900 million (2015: DKK 2,553 million). These financial liabilities are primarily local bank overdrafts, bank guarantee lines and pension liabilities.

WITHHOLDING TAXES

ISS Global A/S is jointly taxed with all Danish resident subsidiaries. ISS Global A/S and the companies within the joint taxation have a joint and unlimited liability of Danish corporate and withholding taxes related to dividends, interests and royalties. As per 31 December 2016 Danish corporate and withholding taxes within the joint taxation amounted to DKK 0 million (2015: DKK 0 million). Any subsequent adjustments to Danish withholding taxes may result in the joint and unlimited liability being higher than DKK 0 million.

VAT

ISS Global A/S and certain Danish Group companies are jointly registered for VAT and are jointly liable for the payment hereof.

12 FINANCIAL RISK MANAGEMENT

ISS Global A/S is exposed to a number of financial risks arising from its operating and financing activities, mainly interest rate risk, liquidity risk, currency risk and credit risk. These financial risks are managed centrally by Group Treasury based on the Group Financial Policy, which is reviewed annually and approved by the Board of ISS A/S.

The objectives, policies and processes for measuring and managing the exposure to financial risks is described in 5.4, 5.5, 5.6 and 5.7 to the consolidated financial statements. The risks specific to ISS Global A/S are described below.

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments, primarily bank loans and issued bonds. ISS Global A/S's exposure towards interest rates is illustrated below, where a breakdown of ISS Global A/S's loans and borrowings in floating and fixed rates is provided. The interest rate exposure to floating interest rates is primarily in EUR.

					2016	2015
DKK million	Nominal interest rate	Currency	Year of maturity	Nominal value	Carrying amount	Carrying amount
Issued bonds (fixed interest rate):						
EMTNs (EUR 700 million)	1.125%	EUR	2020	5,204	5,183	5,196
EMTNs (EUR 500 million)	1.125%	EUR	2021	3,717	3,697	3,708
EMTNs (EUR 500 million)	2.125%	EUR	2024	3,717	3,696	3,707
				12,638	12,576	12,611
Bank loans (floating interest rate):						
Senior Unsecured Facilities ¹⁾ :						
Term Facility B (EUR 300 million)	Euribor + 0.85%	EUR	2019	2,230	2,220	2,223
Revolving Credit Facility (EUR 850 million) ²⁾	Libor + 0.85%	Multi	2019	10	(22)	(44)
				2,240	2,198	2,179
Intra-group (floating interest rate):						
Debt to companies within the ISS Group ²⁾	-	Multi	2019	13,541	13,541	14,595
				13,541	13,541	14,595

¹⁾ The senior facilities include a margin gird where the margin is dependent on the ISS Group's leverage. The current margin of 0.85% will decrease to 0.65% if leverage is below 2.5x and increase to 1.10% if leverage is above 3x. As 31 December 2016, ISS Group leverage was 2.1x meaning that as of beginning of March 2017 margin will decrease to 0.65%.

²⁾ The loans are committed until 2019, but classified as current as they are used in the Group's normal operating cycle.

SENSITIVITY ANALYSIS

It is estimated that a general increase in relevant interest rates of 1%-point would have decreased profit for the year and other comprehensive income by DKK 52 million (2015: decreased both items by DKK 70 million). The estimate was based on loans and borrowings, with floating interest rates, i.e. disregarding cash and cash equivalents, as the level at 31 December is typically the highest in the year and not a representative level for the purpose of this analysis. The analysis assumes that all other variables, in particular currency rates, remain constant.

12 FINANCIAL RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

Liquidity risk results from ISS Global A/S's potential inability or difficulty in meeting the contractual obligations associated with its financial liabilities due to insufficient liquidity.

ISS Global A/S's liquidity reserves mainly consist of liquid funds (cash and cash equivalents less not readily available or restricted cash) and unused credit facilities. As at 31 December 2016, ISS Global A/S's liquid reserves consisted of readily available liquid funds of DKK 1,173 million (2015: DKK 1,800 million) and unused revolving credit facilities of DKK 5,195 million (2015: DKK 5,080 million) where the majority is available for drawing until 19 February 2019.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

The contractual maturities of financial liabilities, based on undiscounted contractual cash flows, are shown below. The undiscounted contractual cash flows include expected interest payments, estimated based on market expectations at the reporting date.

The risk implied from the values in the maturity table below reflects the one-sided scenario of cash outflows only.

DKK million	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
2016								
Loans and borrowings ¹⁾	14,774	15,879	204	194	2,412	5,326	3,797	3,946
Debt to companies within the ISS Group	13,541	13,707	13,707	-	-	-	-	-
Trade payables and other financial liabilities	245	254	183	71	-	-	-	-
Total financial liabilities	28,560	29,840	14,094	265	2,412	5,326	3,797	3,946
2015								
Loans and borrowings ¹⁾	14,790	16,140	199	195	197	2,422	5,346	7,781
Debt to companies within the ISS Group	14,595	14,595	14,595	-	-	-	-	-
Trade payables and other financial liabilities	217	240	137	20	83	-	-	-
Total financial liabilities	29,602	30,975	14,931	215	280	2,422	5,346	7,781

¹⁾ Excluding debt to companies within the ISS Group.

12 FINANCIAL RISK MANAGEMENT (CONTINUED)

CURRENCY RISK

Currency risk is the risk that arises from changes in exchange rates and affects ISS Global A/S's result or value of financial instruments.

To a limited extent ISS Global A/S is exposed to currency risk on loans and borrowings (external) that are denominated in currencies other than DKK as well as intercompany loans to foreign subsidiaries as these are typically denominated in the functional currency of the subsidiary.

At 31 December 2016, 89.6% (2015: 87.8%) of ISS Global A/S's loans and borrowings were denominated in EUR or DKK.

IMPACT ON THE FINANCIAL STATEMENTS

Fluctuations in foreign exchange rates will affect the value of loans and borrowings as well as the income statement as funding is obtained in various currencies. In 2016, changes in foreign exchange rates related to loans and borrowings resulted in a loss of DKK 92 million (2015: loss of DKK 179 million), which was almost offset by the effect of currency swaps. The primary impact is derived from loans and borrowings in EUR, which depreciated 0.4% against DKK in 2016.

SENSITIVITY ANALYSIS

It is estimated that a change in relevant foreign exchange rates would have increased/(decreased) net profit and other comprehensive income by the amounts shown below. The analysis is based on the ISS Group's internal monitoring of currency exposure on loans and borrowings, cash and cash equivalents and intercompany loans. Further, the analysis is based on foreign exchange rate variances that is considered to be reasonably possible at the reporting date and that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

DKK million	Currency exposure (nominal value)	Currency swaps (contractual value)	Total exposure	Sensitivity		
				Increase in foreign ex- change rates	Net profit	Other com- prehensive income
2016						
EUR/DKK	(14,215)	5,032	(9,183)	1%	(92)	(92)
Other/DKK	(142)	163	21	10%	2	2
Total	(14,357)	5,195	(9,162)			
2015						
EUR/DKK	(13,218)	4,659	(8,559)	1%	(86)	(86)
USD/DKK	734	(835)	(101)	10%	(10)	(10)
Other/DKK	(1,428)	1,382	(46)	10%	(5)	(5)
Total	(13,912)	5,206	(8,706)			

13 RELATED PARTIES

In addition to the description in 6.3 to the consolidated financial statements of related parties and transactions with these, related parties of ISS Global A/S comprise ISS World Services A/S and its subsidiaries, associates and joint ventures, see 7.9 to the consolidated financial statements.

In 2016, ISS Global A/S had the following transactions with other related parties, which were all made on market terms:

- ISS Global A/S received/paid interest from/to companies within the ISS Group, see note 5, Financial income and expenses. Receivables from companies within the ISS Group is disclosed in the statement of financial position. Debt to companies within the ISS Group is disclosed in note 9, Loans and Borrowings.
- ISS Global A/S paid joint taxation contribution equal to 22% of taxable income to jointly taxed Danish resident subsidiaries.
- ISS Global A/S purchased DKK 32 million (2015: DKK 442 million) of group internal receivables from ISS Lending A/S.
- ISS Global A/S received dividends in total of DKK 3,119 million (2015: DKK 2,216 million) from companies within the ISS Group, see note 7, Investments in subsidiaries and joint ventures.
- ISS Global A/S increased the share capital in several subsidiaries by DKK 212 million (2015: DKK 2,432 million), see note 7, Investments in subsidiaries and joint ventures.
- ISS Global A/S paid dividends in total of DKK 2,185 million (2015: DKK 2,000 million) to ISS World Services A/S.

14 SUBSIDIARIES AND JOINT VENTURES

DIRECTLY OWNED SUBSIDIARIES AND JOINT VENTURES

ISS Facility Services S.R.L.	Argentina	75%
ISS Argentina S.A.	Argentina	75%
ISS Facility Services Australia Pty Ltd.	Australia	100%
Pacific Invest December 2004 Pty Ltd.	Australia	100%
ISS Austria Holding GmbH	Austria	100%
ISS N.V.	Belgium	100%
ISS Sulamericana Brasil Ltda.	Brazil	100%
ISS Facility Services Sdn. Bhd.	Brunei	100%
ISS Chile S.A.	Chile	100%
ISS Greater China Ltd.	China and Hong Kong	100%
ISS Facility Services s.r.o.	Czech Republic	100%
ISS Facility Services A/S	Denmark	100%
ISS Global Management A/S	Denmark	100%
ISS Holding France A/S	Denmark	100%
ISS Lending A/S	Denmark	100%
ISS Holding OÜ	Estonia	100%
ISS Palvelut Holding Oy	Finland	100%
ISS Facility Services GmbH	Germany	100%
ISS Facility Services S.A.	Greece	89%
ISS Facility Services Kft.	Hungary	100%
ISS Facility Services (India) Pvt. Ltd.	India	100%
PT ISS Indonesia	Indonesia	100%
PT ISS Parking Management	Indonesia	100%
PT ISS Catering Services	Indonesia	49%
ISS Ireland Holding Ltd.	Ireland	100%
ISS Facility Services S.r.l.	Italy	100%
Nihon ISS KK	Japan	100%
ISS Facility Services Sdn. Bhd.	Malaysia	30%
ISS Centro América, S de RL de CV	Mexico	100%
ISS Holding Nederland B.V.	Netherlands	100%
ISS Holdings NZ Ltd.	New Zealand	100%
ISS Holding AS	Norway	100%
ISS Facility Services Phils., Inc.	Philippines	100%
ISS Facility Services Sp. Z.o.o.	Poland	100%
ISS Facility Services, Lda.	Portugal	100%
3D Romania S.A.	Romania	100%
FS East Oy	Russia	100%
ISS Asia Pacific Pte. Ltd.	Singapore	100%
ISS Facility Services Pte. Ltd.	Singapore	100%
ISS Sanitation Services Pte. Ltd.	Singapore	100%
Serve 1 st Services Pte. Ltd.	Singapore	100%
ISS Facility Services spol s r.o.	Slovakia	100%
ISS Facility Services d.o.o.	Slovenia	100%
ISS Facility Services (Pty) Limited	South Africa	100%
Integrated Service Solutions S.L.	Spain	100%
ISS Abans Environmental Services (PT) Ltd.	Sri Lanka	50% ¹⁾
ISS Facility Services Holding AB	Sweden	100%
ISS Holding AG	Switzerland	100%
ISS Facility Services Co., Ltd.	Thailand	100%
ISS Tesis Yönetim Hizmetleri A.Ş.	Turkey	90%
ISS UK Holding Ltd.	United Kingdom	100%
ISS Uruguay S.A.	Uruguay	100%

¹⁾ Joint venture

MANAGEMENT STATEMENT

COPENHAGEN, 9 MARCH 2017

The Board of Directors and the Managing Director have today discussed and approved the annual report of ISS Global A/S for the financial year 2016.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the Parent company financial statements give a true and fair view of the Group's and the Parent company's financial position at 31 December 2016 and of the results of the Group's and the Parent company's operations and cash flows for the financial year 1 January – 31 December 2016.

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

We recommend that the annual report be approved at the annual general meeting.

MANAGING DIRECTOR



Peter Harder Thomsen

BOARD OF DIRECTORS



Jeff Gravenhorst
Chairman



Pierre-François Riolacci



Bjørn Raasteen

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ISS GLOBAL A/S

OPINION

We have audited the consolidated financial statements and the Parent company financial statements (the "financial statements") of ISS Global A/S for the financial year 1 January – 31 December 2016, pp. 34–98, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes, including accounting policies, for the Group as well as for the Parent company. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Parent company at 31 December 2016 and of the results of the Group's and the Parent company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditors' responsibilities for the audit of the financial statements" section of this auditors' report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial

year 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditors' responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

VALUATION OF INTANGIBLE ASSETS

The carrying amounts of goodwill and customer contracts related to prior years' acquisitions comprise a significant part of the consolidated balance sheet. The cash-generating units in which goodwill and customer contracts are included are impairment tested by Management on an annual basis. The impairment tests are based on Management's estimates of among others future profitability, long-term growth and discount rate. Due to the inherent uncertainty involved in determining the net present value of future cash flows, we considered these impairment tests to be a key audit matter.

For details on the impairment tests performed by Management reference is made to notes 4.5, 4.6 and 4.7 in the consolidated financial statements.

In response to the identified risks, our audit procedures included, among others, testing the mathematical accuracy of the discounted cash flow model and comparing forecasted profitability to board approved budgets. We evaluated the assumptions and methodologies used in the discounted cash flow model, in particular those relating to the forecasted revenue growth and operating margin, including comparing with historical growth rates. We compared the assumptions applied to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth and discount rates. Further, we evaluated the sensitivity analysis

on the assumptions applied. Our audit procedures primarily focused on cash generating units where changes in key assumptions could result in impairment. We further evaluated the disclosures provided by Management in the financial statements compared to applicable accounting standards.

ASSETS AND LIABILITIES HELD FOR SALE

When classifying businesses as held for sale Management makes judgements and estimates, including assessment of impairment of the net assets. Due to the inherent uncertainty involved in classifying and assessing assets and liabilities held for sale, we considered these balances as a key audit matter.

For details on the assets and liabilities held for sale reference is made to note 4.3 in the consolidated financial statements.

In response to the identified risks, our audit procedures included, among others, agreeing the carrying amounts of the assets held for sale to underlying accounting records, discussing with Management the criteria for classification as held for sale and reading draft agreements where relevant. We considered the fair value assessment made by Management, including assessment of key assumptions applied and evaluation of the explanations provided by comparing key assumptions to market data, where available. We further evaluated the disclosures provided by Management in the financial statements compared to applicable accounting standards.

INCOME TAX AND DEFERRED TAX

The Group's operations are subject to income taxes in various jurisdictions having different tax legislation. Management makes judgements and estimates in determining the accrual for income taxes and deferred taxes. Given the inherent uncertainty involved in assessing and estimating the income tax and deferred tax balances, including tax exposures and write-down of deferred tax assets, we considered these balances as a key audit matter.

For details on the income tax and deferred tax balances reference is made to notes 2.5 and 2.6 in the consolidated financial statements and notes 4 and 6 in the Parent company financial statements.

In response to the identified risks, our audit procedures included review of completeness and accuracy of the amounts recognised as income tax and deferred tax, including assessment of correspondence with tax authorities and evaluation of tax exposures as well as write down of deferred tax assets. In respect of the deferred tax assets recognised in the statement of financial position, we assessed Management's assumptions as to the probability of

recovering the assets through taxable income in future years and available tax planning strategies. We further evaluated the disclosures provided by Management compared to applicable accounting standards.

VALUATION OF INVESTMENTS IN SUBSIDIARIES

The investments in subsidiaries comprise a significant part of the balance sheet of the parent company. The valuation of investments in subsidiaries is based on Management's assessment of whether indications or objective evidence of impairment exists. This assessment is based on a review of the net present value of the expected future cash flows generated by the subsidiaries which is determined on the basis of, among others, the expected future profitability, long-term growth and discount rate for each subsidiary. Due to the inherent uncertainty involved in determining the net present value of expected future cash flows, we considered the valuation of investments in subsidiaries to be a key audit matter.

For details on the valuation of investments in subsidiaries reference is made to note 7 in the parent company financial statements.

In response to the identified risks, our audit procedures included, among others, testing the mathematical accuracy of the discounted cash flow model and comparing forecasted profitability to board approved budgets. We evaluated the assumptions and methodologies used in the discounted cash flow model, in particular those relating to the forecasted revenue growth and operating profitability, including comparing with historical growth rates and results. We compared the assumptions applied to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth and discount rates. Further, we evaluated the sensitivity analysis on the assumptions applied. Our audit procedures primarily focused on investments, where likely changes in key assumptions could result in impairment. We further evaluated the disclosures provided by Management in the parent company financial statements compared to applicable accounting standards.

STATEMENT ON THE MANAGEMENT'S REVIEW

Management is responsible for the Management's review, pp. 1–33.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements, or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we concluded that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, Management is responsible for assessing the Group's and the Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent company or to cease operations, or has no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.


- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 9 March 2017
 ERNST & YOUNG
 Godkendt Revisionspartnerselskab
 CVR-no. 30700228


Jesper Ridder Olsen
 State Authorised
 Public Accountant


Michael Groth Hansen
 State Authorised
 Public Accountant

