STANDARD & POOR'S

RATINGSDIRECT®

June 5, 2008

ISS Holding A/S

Primary Credit Analyst:
Alf Stenqvist, Stockholm (46) 8-440-5925; alf_stenqvist@standardandpoors.com

Secondary Credit Analysts:
Mohammed Fayek, London (44) 20-7176-3408; mohammed_fayek@standardandpoors.com
Peter Tuving, Stockholm (46) 8-440-5913; peter_tuving@standardandpoors.com

Table Of Contents

ISS Holding A/S

Major Rating Factors

Corporate Credit Rating
BB-/Stable/--

Strengths:

- Leading player in most of its markets, and a well-known brand
- Wide geographical and customer diversity
- Resilient nature of basic services business
- Strong cash generation from business operations, with low asset intensity and capital expenditure needs
- Good integration track record

Weaknesses:

- Highly leveraged financial profile
- Competitive industry with fairly weak margins
- Few barriers to entry preventing local competition
- Little price flexibility
- Growth-by-acquisition strategy

Rationale

The ratings on Denmark-based facilities services provider ISS Holding A/S and related entities (ISS) reflect the group's highly leveraged financial profile and weak credit measures. This is mitigated by its strong business profile, underpinned by its solid business position in an attractive--albeit fragmented and competitive--industry.

On March 31, 2008, adjusted total debt was about Danish krone (DKK) 33.0 billion (€4.4 billion) including unfunded postretirement liabilities.

With sales of DKK63.9 billion and organic growth of 6% in 2007, the group benefits from a strong business position, particularly in Northern Europe, where it is a leader in most of its markets. The group benefits from good geographical diversity and a highly diversified customer base. We consider the group's business sector attractive, as it is resilient to recession and likely to benefit from increasing outsourcing.

Although there are few barriers to entry and pricing is competitive within the sector, the group has a good record of contract retention, and is large enough to benefit from economies of scale.

Acquisitions have been and are likely to continue to be part of the group's strategy to add competencies and build critical mass and geographical presence. Although this acquisition strategy adds some risk to the business, the group's track record is good, with management successfully integrating acquired companies. As a result of the competitive nature of the facilities services business, the group's operating profit margins are relatively low, although they improved in 2007. The group's EBITDA margin was about 7.3% (not adjusted for operating leases) in 2007, up from about 7.1% in 2006.

The group is highly leveraged following a buy-out in May 2005 by a private equity consortium consisting of funds advised by EQT Partners and Goldman Sachs Capital Partners. As a consequence, its credit measures are weak, though improving. In 2007, adjusted debt to EBITDA was about 6.6x (not lease adjusted), and EBITDA interest coverage was 1.9x. We expect a continued gradual improvement in credit measures, supported by strengthening operating cash flows, although this should be tempered by the group's acquisitive growth strategy. Acquisition spending is flexible, however, and acquisitions are normally immediately cash-flow enhancing. Free operating cash flows are relatively small due to high interest expenses, but the group's highly flexible cost base (primarily related to staff) and low capital expenditure needs are likely to provide some cushioning in the event of a downturn.

Liquidity

The group's liquidity resources are adequate, with modest expected annual debt maturities before September 2010. On March 31, 2008, short-term debt was DKK1.1 billion. Most of this was drawings under the group's major liquidity resource, a DKK2.4 billion committed revolving credit facility. On March 31, 2008, about DKK0.8 billion was drawn under the facility and an additional DKK1 billion was allocated to support performance bonds issued by operating subsidiaries. In addition, the group has a letter of credit/guarantee facility of DKK500 million and separate acquisition facilities totaling DKK4.9 billion (of which DKK1.8 billion had been drawn on March 31, 2008). All of the group's current credit facilities mature in 2012, 2013 or 2015, and include financial covenants. Headroom under the covenants is expected to be sufficient. We expect the group to continue to post positive free operating cash flow (before acquisitions, and adjusted for seasonal working-capital swings).

Recovery analysis

The issue rating on ISS Holding A/S's €454 million senior subordinated notes due 2016 is 'B', two notches below the corporate credit rating. The recovery rating of '6' indicates our expectation of negligible (0%-10%) recovery in the event of a payment default.

The issue rating on €850 million notes due 2010 and €110 million notes due 2014 issued under a €2 billion euro medium-term note program by group member ISS Global A/S (BB-/Stable/--), which is wholly owned by ISS Holding A/S, is 'B', two notches below the corporate credit rating. The recovery rating of '6' indicates our expectation of negligible (0%-10%) recovery in the event of a payment default.

For our full recovery report, see "ISS Holding A/S' Recovery Rating Profile", published May 30, 2008 on RatingsDirect.

Outlook

The stable outlook reflects our expectation that the group's operating performance will remain steady thanks to its ability to generate strong cash flows. We expect a further gradual improvement of credit measures over the near term supported by continued organic growth in the mid-single digit range. We also expect debt increases from acquisitions to be largely offset by cash flow contribution from the acquired companies (on a full year basis). This should allow adjusted debt to EBITDA to decline towards 6x, and EBITDA interest coverage to increase above 2x over the near to medium term. We also expect the group to refinance its €850 million (DKK6.3 billion) euro medium term notes ahead of their maturity in September 2010.

Downside rating risk would primarily be related to a change in acquisition strategy towards larger debt-financed acquisitions or a significant drop in organic growth rates towards zero or negative growth. Both factors could lead to a reduction in credit measures over a longer than acceptable period. Further upside potential in the ratings is constrained by the group's highly leveraged financial risk profile, despite recent improvements. Standard & Poor's does not currently incorporate any impact from a potential IPO into the ratings.

Business Description: Established Facilities Services Group

ISS is a large and long-established facilities services group, with operations in 50 countries in Europe, Asia, Latin America, Australia, and the U.S. In 2007, the group had sales of almost DKK64 billion. It provides general facilities services for private and public entities, such as:

- Cleaning services, (including washroom services), accounting for 54% of 2007 sales;
- Property services (including landscaping, pest control, damage control services, and maintenance and technical services), accounting for 24% of 2007 sales;
- Catering services, accounting for 7% of 2007 sales;
- Office support services (call centers, reception services, and office logistics), accounting for 6% of 2007 sales;
- Security services (manned guarding, access control), accounting for 5% of 2007 sales, and
- Facility Management (on-site management of facility services, change management, space management and consulting), accounting for 4% of 2007 sales.

In May 2005, ISS was acquired by EQT and Goldman Sachs Capital Partners. It was subsequently de-listed from the Copenhagen Stock Exchange. The current ownership stakes are EQT 54%, Goldman Sachs Capital Partners 44%, and ISS management 2%.

Business Risk Profile Based On Solid Position In Attractive Industry

ISS has a strong business risk profile, reflecting its size and market leadership in many of its countries of operation. The group benefits from good geographical diversity and a highly diverse customer base. It is acquisitive, but has a good track record of integrating its acquisitions. Standard & Poor's considers ISS' business sector attractive, as it is resilient to recession and likely to benefit from increasing outsourcing. There are, however, few barriers to entry and pricing is competitive in the sector.

Industry characteristics: Resilient to recession, but fragmented and competitive

The European facility services sector is a fragmented but mature industry, characterized by high-volume, low-value contracts. Markets tend to be local, and in most sectors, there are few barriers to entry, but high margins are achievable, depending on the industry subsector. Consolidation is continuing at a fairly fast pace.

The trend toward outsourcing many of these mostly essential services continues. As a result, most segments of the industry are growing, at an annual rate of about 4% in Western Europe. The sector is relatively resilient to recession, although there is some correlation to the general economic development in the region of activity.

Keys to success in the industry include:

- Size, critical mass, and diversity in terms of geographical reach, service portfolio, and customer base;
- A presence in attractive service segments, with, for example, more stable demand and lower price competition than the industry average;
- The ability to provide a consistent high-quality service at a competitive price;
- Predictable profitability and flexibility in the cost base; and
- Good internal control systems and the ability to integrate acquisitions.

Competitive position: Diversified market leader with strong record of integrating acquisitions

ISS is a strong player in the European facilities services business, with particular strength in the Nordic region (which accounts for about 26% of its sales). Cleaning services accounted for 54% of group turnover in 2007, and in most of the countries where it operates, ISS is one of the three largest players. As part of its long-term strategy, ISS focuses on broadening its service concept, and developing and offering integrated on-site facility services (including cleaning, property, catering, office support and security services). To support this strategy, ISS continues to build critical mass both on a regional basis, as well as on a service segment basis, although the group does not necessarily provide all services itself in all of the regions in which it is present. Although this strategy is leading to a gradual rebalancing of the business mix, cleaning is often a starting point for developing integrated facility service contracts, and is likely to remain a major activity for the group in the future. One of ISS' major competitive advantages is its size, which supports staff flexibility (for example, the same staff can provide different services within the same location). ISS is sizable and well known enough to be invited to tender for most large contracts in its areas of operation. Size and quality are the key barriers to entry in this fairly basic and competitive industry, as customers want good, reliable service at a competitive price.

ISS has a diverse and largely loyal customer base, with more than 200,000 business-to-business customers, which lends stability to the business. The 10 largest customers accounted for less than 5% of total turnover in 2007. Although the industry tends to renew contracts frequently, ISS' level of contract retention has remained stable for some years, at about 85%-90%. ISS benefits from its good geographical spread, reflecting the local nature of its markets. The group has a strong presence in a large number of European countries, and is gradually increasing its presence outside Western Europe, with a focus on higher growth markets in Central and Eastern Europe, Latin America, Asia, and the U.S. In 2007, sales from outside Europe accounted for about 13% of the total.

Acquisitions have been and are likely to remain an essential part of ISS' strategy of building up regional presence and critical mass. The risks associated with the acquisition strategy are mitigated by management's good track record of integrating acquisitions and the fact that acquisitions are normally small in size (less than DKK100 million in sales). Positively, acquisitions have contributed to building ISS' strong market positions, and widening its service portfolio and geographical reach.

Profitability low but margins are stable and the cost base highly flexible

ISS has had reasonable operating profit margins for the sector, at about 7% (before depreciation and amortization, not lease adjusted, and about 9% lease-adjusted). In 2007, the group's EBITDA margin (not lease adjusted) improved to 7.3% from 7.1% in 2006, supported by strong organic growth at 6% as well as cost efficiencies. Standard & Poor's expects margins to stay broadly flat in the near term because continued cost efficiencies at ISS might be matched by continued price pressure and a possible economic slowdown. We would not expect significant margin deterioration in a downturn, (as demonstrated in the past), and ISS benefits from a highly flexible cost base, which could be quickly adjusted if necessary. Staff costs make up about 65% of total costs, and there are comparatively few fixed costs. Members of staff are mostly attached to specific contracts, meaning that ISS can slim down quickly if contracts are lost. Contracts also often include pass-through clauses for wage increases.

At the end of 2007, ISS had more than 438,000 employees. Staff turnover is high (55% in 2007), although this is a common industry characteristic. High staff turnover imposes replacement costs, and can affect the quality of service. At the same time, high employee turnover makes it easier for ISS to adapt staff levels to any temporary weaknesses in market conditions. Reflecting local markets, retention of good local on-site management is therefore more important to ISS.

Peer comparison: Lower rating than peers owing to higher financial risk

Reflecting the fragmented nature of the industry, competitors tend to differ from country to country. Major rated competitors include Sodexho Alliance S.A. (BBB+/Stable/A-2), Compass Group PLC (BBB+/Stable/--), and Rentokil Initial PLC (BBB/Negative/--). These companies are leading market players like ISS and benefit from diversified customer bases and geographical spreads. While Sodexho's and Compass' margins are similar to those of ISS, Rentokil Initial has the highest margins in the peer group, largely reflecting its business mix (with a large share of high-margin businesses such as washroom services and pest control), which is more capital intensive than ISS' business mix. The three peers have stronger financial risk profiles than ISS, as a result of the increase in ISS' leverage in 2005 following the buy-out.

Financial Risk Profile: High Leverage Limits Free Cash Flow Generation

The group is highly leveraged following the buy-out. As a consequence, its credit measures are weak, though improving. Operating cash flows benefit from low capital expenditure needs, but high interest expenses put pressure on free cash flow generation, and the group's acquisitive growth strategy tempers material improvements in its credit measures.

Accounting

Since Jan. 1, 2005, ISS has reported according to IFRS (International Financial Reporting Standards), having previously reported according to the Danish Financial Statements Act, including Danish Accounting Standards. Standard & Poor's makes a number of adjustments to ISS' reported figures (see table 1).

Table 1

Reconciliation Of ISS Holding A/S Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. DKK)*

	--Fiscal year ended Dec. 31, 2007--							
ISS Holding A/S reported amounts								
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	31,921.0	5,459.0	4,484.0	4,484.0	2,388.0	3,713.0	3,713.0	715.0
Standard & Poor's adjustments								
Operating leases	3,565.5	--	1,214.0	171.3	171.3	1,042.7	1,042.7	1,321.5
Postretirement benefit obligations	470.3	72.8	(38.0)	(38.0)	7.0	72.0	72.0	--
Surplus cash and near cash investments	(1,300.0)	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	2.0	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	(2,373.0)	(2,373.0)	--

Table 1

Reconciliation Of ISS Holding A/S Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. DKK)*(cont.)	Debt	Equity	Operating income (before D&A)	EBITDA	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	44.0	--
Minority interests	--	59.0	--	--	--	--	--	--
Other	370.0	--	196.0	196.0	--	26.0	26.0	--
Total adjustments	3,105.7	131.8	1,372.0	331.3	178.3	(1,232.3)	(1,188.3)	1,321.5
Standard & Poor's adjusted amounts								
Adjusted	35,026.7	5,590.8	5,856.0	4,815.3	2,566.3	2,480.7	2,524.7	2,036.5

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

ISS has material commitments under operating lease agreements, primarily relating to properties and vehicles. Adjusting for these off-balance-sheet commitments, debt in 2007 increased by almost DKK3.6 billion on a net present value basis, using a 5% discount rate. The debt to EBITDA ratio increased by about 0.5x. The negative impact in credit terms from these obligations are, however, mitigated by the fact that the lease contracts are mostly short-term, at three years or less, which means that ISS can adjust its needs relatively quickly to changes in the operating environment. In addition, leasing contracts for vehicles are flexible, and allow for the return of vehicles before the contract expires.

Corporate governance/ Risk tolerance/Financial Policy

Since the buy-out by EQT and Goldman Sachs Capital Partners in May 2005, ISS has been highly leveraged, with an adjusted debt-to-EBITDA rate of about 6.8x (including postretirement liabilities, but not lease-adjusted) at year-end 2007, which, however, was an improvement from 2006. Standard & Poor's expects a continued further deleveraging on a multiple basis in line with ISS' financial policy, although tempered by the group's continued acquisition activities, which are likely to be largely debt-financed. Any major acquisition is expected to be financed in such a way that credit measures do not weaken. Dividend pay-out is highly restricted, and the company is expected to dedicate free cash flows to cash enhancing growth investments.

In June 2007, ISS announced that the owners were reviewing the feasibility of an IPO. Based on market conditions, however, the shareholders later decided not to proceed. Standard & Poor's does not factor any future IPO into the ratings.

Cash flow adequacy good, but debt levels are high and credit measures weak

Although operating margins are relatively low, ISS' free operating cash flow generation benefits from the low capital intensity of the business. Gross capital expenditure in relation to sales has been between 1.1% and 1.5% over the past five years. The significantly increased debt levels following the buy-out resulted in high interest expenses, which lowered free cash flows, and resulted in weak cash flow protection measures. There was an improvement in 2007, when EBITDA interest coverage increased to 1.9x from below 1.8x in 2006. The ratio is expected to further improve in 2008 supported by continued sales growth and lower interest costs (on a like for like basis) following full year benefits from refinancing in 2007. Adjusted funds from operations to debt is expected to remain weak, at below 10% over the near term, although ISS is expected to continue to post positive free operating cash flows. Although free cash flows are expected to be used for acquisitions rather than debt reduction, acquisition spending is discretionary and flexible, and can be cut if needed. In addition, when evaluating credit measures on a yearly basis, we take into account the fact that operating cash flows are slightly understated, as they do not show full-year cash flows from acquisitions made during the year.

Capital structure weak, but near-term mandatory repayments small

The high debt levels result in a weak capital structure for the ratings, with adjusted debt to capital of 85% at year-end 2005 (excluding operating leases), and are not expected to materially change over the near term.

Refinancing transactions in June 2007 included issuing about DKK8.5 billion in additional senior facilities and DKK4.5 billion in second lien facilities, with proceeds used to repay DKK6.3 billion in high yield floating rates notes, repayment of DKK2.9 billion of DKK3.7 billion euro medium-term notes due in 2014, with the remainder essentially used to re-load existing acquisition facilities. Although ISS has only small mandatory annual repayments over the next two years, it faces a major refinancing need in September 2010, when its €850 million euro medium-term notes mature. Standard & Poor's expects ISS to refinance these notes well ahead of maturity. Any refinancing of existing debt or issuance of new debt over the near term is, however, subject to risk of increasing interest costs for the group.

ISS' balance sheet is heavily oriented toward the short term, with fixed assets comprising about 12% of DKK18 billion in total tangible assets. ISS also has about DKK37 billion of intangible goodwill, brands, and customer contracts resulting from acquisitions in its DKK55 billion of total assets.

Table 2

ISS Holding A/S -- Peer Comparison*

	ISS Holding A/S	Compass Group PLC	Sodexo	Rentokil Initial PLC	TDC A/S
	BB-/Stable/B	BBB+/Stable/--	BBB+/Stable/A-2	BBB/Negative/--	BB-/Stable/B
	--Fiscal year ended Dec. 31, 2007--	--Fiscal year ended Sep. 30, 2007--	--Fiscal year ended Aug. 31, 2007--	--Fiscal year ended Dec. 31, 2007--	--Fiscal year ended Dec. 31, 2007--
(Mil. €)					
Revenues	8,571.4	14,708.9	13,385.0	3,000.4	5,272.6
EBITDA	645.7	1,054.5	849.5	597.5	1,676.5
Net income from cont. oper.	(62.8)	434.0	347.0	149.1	624.1
Funds from operations (FFO)	338.6	865.9	666.6	471.8	1,445.2
Capital expenditures	273.0	223.5	408.6	334.2	1,026.1
Free operating cash flow	59.7	695.5	446.0	44.9	501.1
Debt	4,696.8	1,664.6	1,127.7	1,416.7	11,213.1
Equity	749.7	3,200.8	2,300.0	79.4	1,304.5
Adjusted ratios					
EBITDA/revenues (%)	7.5	7.2	6.3	19.9	31.8
EBITDA interest coverage (x)	1.9	5.4	5.9	5.1	2.1
Return on capital (%)	6.9	15.2	19.5	24.7	10.1
FFO/debt (%)	7.2	52.0	59.1	33.3	12.9

Table 2

ISS Holding A/S -- Peer Comparison*(cont.)					
Free operating cash flow/debt (%)	1.3	41.8	39.5	3.2	4.5
Debt/EBITDA (x)	7.3	1.6	1.3	2.4	6.7
Total debt/debt plus equity (%)	86.2	34.2	32.9	94.7	89.6

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. Corporate credit ratings as of May 30, 2008

Table 3

ISS Holdings A/S -- Financial Summary*				
	--Fiscal year ended Dec. 31--			
	2007	**2006**	**2005§**	**2004§**
Rating history	B+/Stable/B	B+/Stable/B	B+/Stable/B	BBB+/Stable/A-2
(Mil. DKK)				
Revenues	63,922.0	55,772.0	46,440.0	40,355.0
EBITDA	4,815.3	4,046.9	3,408.3	2,993.9
Operating income (bef. D&A)	5,856.0	5,006.5	4,262.0	3,747.0
Net income from continuing operations	(468.0)	(827.0)	935.0	817.0
Funds from operations (FFO)	2,524.7	1,843.0	2,960.7	2,536.2
Capital expenditures	2,036.5	2,379.0	1,545.6	1,828.2
Free operating cash flow	444.2	(486.0)	1,181.1	893.9
Debt	35,026.7	31,613.5	19,397.5	11,225.9
Equity	5,590.8	6,012.4	2,286.4	8,823.4
Adjusted ratios				
EBITDA/revenues (%)	7.5	7.3	7.3	7.4
Oper. income (bef. D&A)/revenues (%)	9.2	9.0	9.2	9.3
EBIT interest coverage (x)	1.1	0.9	3.0	4.5
EBITDA interest coverage (x)	1.9	1.7	4.1	5.3
Return on capital (%)	6.9	6.4	11.6	13.2
FFO/debt (%)	7.2	5.8	15.3	22.6
Free operating cash flow/debt (%)	1.3	(1.5)	6.1	8.0
Debt/EBITDA (x)	7.3	7.8	5.7	3.7
Debt/debt and equity (%)	86.2	84.0	89.5	56.0

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. §2005 and 2004 refer to ISS A/S only. Credit measures for 2005 do note include the impact of about DKK 6.8 billion of additional net debt at ISS Holding. DKK--Danish krone

Ratings Detail (As Of June 5, 2008)*	
ISS Holding A/S	
Corporate Credit Rating	BB-/Stable/--
Subordinated	
Foreign Currency	B
Corporate Credit Ratings History	
30-May-2008	BB-/Stable/--
07-Nov-2005	B+/Stable/--

Ratings Detail (As Of June 5, 2008)* **(cont.)**	
Business Risk Profile	Strong
Financial Risk Profile	Highly leveraged
Debt Maturities	
On Dec. 31, 2007: Within one year: DKK1.0 bil. Between 1-5 years: DKK8.9 bil. Thereafter: DKK22.0 bil.	
Related Entities	
ISS A/S	
Issuer Credit Rating	BB-/Stable/B
ISS Global A/S	
Issuer Credit Rating	BB-/Stable/--
Senior Unsecured	
Foreign Currency	B

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com