Moody's Investors Service

Global Credit Research
Rating Action
28 APR 2006

Rating Action: FS Funding A/S

MOODY'S DOWNGRADES TO P(B2) THE CORPORATE FAMILY RATING OF FS FUNDING A/S; OUTLOOK STABLE.

London, 28 April 2006 -- Moody's today downgraded to P(B2) the corporate family rating of FS Funding A/S, the holding company of ISS A/S and ISS Global, and to (P)Caa1 the rating for the proposed EUR 1,300 million high yield notes. The outlook on all ratings is stable.

The downgrade reflects the company's stated intention to increase its bond issuance, originally targeted at EUR 975 million, by c.EUR 325 million to EUR 1,300 million, of which EUR 134 million will replace the proposed PIK note. The remaining EUR 191 million will increase the size of the debt in the overall capital structure beyond what Moody's had originally factored into the P(B1) corporate family rating. At the time that the initial P(B1) rating was assigned, and prior to the more recently stated increase in issuance, Moody's had noted that the ratings were weakly positioned.

Approximately one third of the issuance is expected to be fixed rate and two thirds floating rate. The new borrowings are expected to increase the cash balance post issuance, but eventually to be used towards acquisitions, thereby increasing leverage and potentially slowing the eventual deleveraging process on which the previous ratings were predicated. On the basis of the new issue size, Adj. Total Debt/EBITDA is expected to be in excess of 8 times. The (P)Caa1 rating for the proposed bond, two notches below the corporate family rating, continues to reflect their subordination to priority debt representing about 73% total debt within the revised capital structure.

The rating outlook is stable. As before, nominal debt is expected to continue to rise in coming years. In addition, the increased borrowing, and the replacement of the PIK loan with issued debt, will result in higher upfront cash interest payments after the transaction, which could delay any eventual deleveraging. Moody's therefore notes that the company and its shareholders have opted for a more aggressive financial policy which will render the company more vulnerable to potential industry and economic volatility.

Moody's believes that the company is adequately positioned within the current rating category. A sustainable reduction in Adj. Total Debt/EBITDA towards the 6.5x range accompanied by financial policies supportive of further deleveraging could be positive for the rating. The ratings would come under negative pressure if operating performance or liquidity concerns develop as regards the company's ability to service its debt obligations. In addition, Moody's will closely monitor liquidity and working capital management given that interest payments will absorb a significant portion of cash flows.

ISS is one of the world's leading providers of facility services, based in Copenhagen, Denmark. Its services are categorised as cleaning, office support, property, catering and integrated facilities services. In 2005, the company reported revenues and operating profits of DKK 46.44 billion (EUR 624 million) and DKK 2.650 billion (EUR 355 million), respectively, under IFRS.

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