STANDARD & POOR'S

CORPORATE RATINGS

Summary: ISS A/S

Credit Rating:
B+/Stable/B

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Publication Date
Sept. 8, 2006

Rationale

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

At end-June, 2006 adjusted debt was about Danish krone (Dkr) 28.2 billion (€3.8 billion; including unfunded postretirement liabilities).

With sales of Dkr46.4 billion in 2005, ISS benefits from a strong business position, particularly in Northern Europe, where it is a market leader in most of its operations. The group benefits from good geographical diversity across Europe and a highly diversified customer base. Standard & Poor's Ratings Services considers ISS' business sector to be attractive, as it is resilient to recession and is likely to benefit from increasing outsourcing. Although there are few barriers to entry and pricing is competitive in this sector, the group has a good record of contract retention, and is large enough to benefit from economies of scale.

The recent change of CEO at ISS is not expected to lead to any material changes in the group's overall strategy. Acquisitions have been and are likely to continue to be part of ISS' strategy to add competencies and build critical mass and geographical presence. Although this acquisition strategy adds some risk to the business, ISS' track record is good, with management successfully integrating acquired companies. As a result of the competitive nature of the facilities services business, ISS' operating profit margins are relatively low, with EBITDA margins of about 7% (not adjusted for operating leases).

The group's financial profile is highly leveraged following the buy-out in May 2005 by a private equity consortium consisting of EQT III and EQT IV and Goldman Sachs Capital

Partners. This resulted in weak credit measures, with adjusted debt to EBITDA expected to be about 7.5x (not lease adjusted) in the near term, and EBITDA cash interest of about 2x. Standard & Poor's does not incorporate material improvements in these ratios in the medium term, reflecting the company's acquisitive growth strategy. Acquisition spending is discretionary and flexible, however, and acquisitions are normally immediately cash flow enhancing. Furthermore, the group's highly flexible cost base (primarily related to staff) and low capital expenditure needs provide additional cushioning in a downturn.

Liquidity

Liquidity resources are adequate, with expected modest annual debt maturities until 2010. The major liquidity resource is a Dkr1.75 billion committed revolving credit facility, of which Dkr722 million was drawn at June 30, 2006. There is also a Dkr750 million uncommitted revolving credit facility. In addition, the group has a letter of credit/guarantee facility of Dkr500 million and separate acquisition facilities totaling Dkr4.9 billion (of which Dkr2.0 billion was drawn at June 30, 2006). These facilities mature in 2012 and 2013, respectively, and include financial covenants. Headroom under the covenants is expected to be sufficient. We also expect the group to continue to post positive free operating cash flow (before acquisitions, and adjusted for seasonal working-capital swings).

Recovery analysis

The €1.3 billion (Dkr9.7 billion) senior subordinated notes have been rated two notches below the corporate credit rating as the notes are contractually and structurally subordinated to substantial priority liabilities within the group, including non-interest-bearing liabilities at operating subsidiary level. For similar reasons, the two existing EMTN bonds totaling €1.35 billion (Dkr10.1 billion), maturing in 2010 and 2014 and issued by ISS Global under the group's EMTN program, continue to be rated two notches below the corporate credit rating, although the €1.3 billion senior subordinated notes are structurally subordinated to the EMTN bonds.

Unrated committed senior secured facilities consist of:

- Dkr6.8 billion term facilities with final maturity in 2012 and 2013.
- A Dkr1.75 billion revolving credit facility maturing in 2012.
- A Dkr500 million letter of credit facility maturing in 2012.
- Dkr4.9 billion acquisition facilities maturing in 2012 and 2013.

The capital structure also includes a Dkr750 million uncommitted revolving credit facility, maturing in 2012.

The senior facilities are secured by a share pledge in the shares of ISS A/S held by FS Funding. It is also a condition of the senior facilities agreement that material subsidiaries guarantee the senior facilities and provide security pledges over their bank accounts, trade and intercompany receivables, and intellectual property and share pledges as far as legally possible. As is usual, there are limitations on the amounts certain subsidiaries can guarantee in accordance with local laws.

Drawings under the facilities were about Dkr9.5 billion at June 30, 2006. The remaining bank debt at FS Funding level was repaid at end-August 2006 with proceeds from dividends from ISS A/S and ISS Global, which was financed by further drawings under the senior facilities by ISS Global.

Outlook

The stable outlook reflects our expectation that ISS' operating performance should remain steady, and is underpinned by the group's ability to generate strong cash flows. We do not incorporate material improvements in ISS' credit measures, reflecting the expected continued acquisition strategy, which limits upside potential in the ratings. Nor do we expect any material deterioration in credit measures. If this were to occur, however, it could result in a negative rating action.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280.