STANDARD & POOR'S

CORPORATE RATINGS

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ISS A/S

ISSUER CREDIT RATINGS

ISS A/S

Corporate Credit Rating	B+/Stable/B

ISS Holding A/S

Corporate Credit Rating	B+/Stable/—

ISS Global A/S

Corporate Credit Rating	B+/Stable/—

AFFIRMED RATING

ISS Global A/S

Sr unsecd debt	
Foreign currency	B-

Business risk profile:

Strong

Financial risk profile:

Highly leveraged

Debt maturities:

Pro forma capitalization Sept 30, 2005
— There is Dkr1.4 billion in short-term borrowings under local facilities, of which almost one-half is expected to be refinanced with borrowings under revolving credit facilities.
— Mandatory repayments under the senior facilities are only Dkr200 million annually between 2006-2008. In 2009, repayments under the facilities are about Dkr375 million.
— In 2010, the €850 million (Dkr6.3 billion) EMTN bond matures, and there are also about Dkr0.8 billion in repayments under the senior facilities.
— Almost Dkr8 billion of debt matures during 2012 and 2014.
— The Dkr6.6 billion subordinated bridge facility and Dkr925 million PIK bridge facility matures in May 2005, but could be extended by nine years if not refinanced.

Collateralization:

Drawings by ISS Global A/S under senior secured credit facilities of Dkr5.7 billion, Dkr2.5 billion revolving credit facilities, Dkr500 million letter of credit facility and the Dkr5.25 billion acquisition facilities will be secured against assets in operating subsidiaries.

Total rated debt:

€1.35 billion (Dkr10.1 billion) at ISS Global A/S, at Sept. 30, 2005.

Corporate credit rating history:

May 17, 2005	B+/B
May 12, 2005	BB+/B
Apr. 9, 2002	BBB+/A-2

Major Rating Factors

Strengths:

- Market leader in most of its operations, and a well-known brand;
- Good geographical diversity throughout Europe;
- Resilient nature of basic services business; and
- Strong cash generator, with low asset intensity and capital expenditure needs.

Weaknesses:

- Highly leveraged financial profile;
- Competitive industry with fairly weak margins;
- Few entry barriers preventing local competition, although the group's size enables economies of scale; and
- Little price flexibility (but high cost flexibility).

Rationale

The ratings on ISS Holding A/S and related entities reflect the ISS group's highly leveraged financial profile and weak credit measures. This is mitigated by the group's strong business profile, underpinned by its strong business position in an attractive—albeit fragmented and competitive—industry. After recent finalizing of financial arrangements, the group had pro forma interest-bearing net debt of about Danish krone (Dkr) 23 billion (€3.1 billion; $3.6 billion), including a Dkr925 million pay-in-kind (PIK) facility at Sept. 30, 2005.

With sales of Dkr40.4 billion in 2004, 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. Standard & Poor's 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. Acquisitions have been and are likely to continue to be part of ISS' strategy to add competences and build critical mass and geographical presence. Although the 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 (EQT) and Goldman Sachs Capital Partners. This resulted in weak credit measures, with net debt to EBITDA expected to be above 7.0x (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 the acquisitions are normally immediately cash-enhancing. In addition, ISS benefits from good free operating cash flows, reflecting low capital expenditure needs. The group's highly flexible cost base (primarily staff-related) provides additional cushioning in a downturn.

Liquidity

Liquidity resources are adequate. The major liquidity resource is a Dkr1.75 billion committed revolving credit facility. There is also a Dkr750 million uncommitted revolving credit facility. The facilities will primarily be used for working capital purposes, as annual debt maturities are expected to be very modest until 2010. In addition, there is a letter of credit/guarantee facility of Dkr500 million, and separate acquisition facilities totaling Dkr5.25 billion. The facilities mature in 2012 (except for the Dkr3.5 billion acquisition facility, which matures in 2014), and include financial covenants. Headroom under the covenants is, however, expected to be sufficient. The group is also expected to continue to post positive free operating cash flows (before acquisitions).

Recovery analysis

The two existing bonds totaling €1.35 billion (Dkr10.1 billion), maturing in 2010 and 2014, respectively, and issued by ISS Global under the group's EMTN program, are rated two notches below the corporate credit rating. This reflects the fact that there is a substantial level of priority liabilities within the group, including non-interest-bearing liabilities at operating subsidiary level, which are structurally senior to the notes.

Unrated committed senior secured facilities consist of:

- Dkr5.7 billion term facilities with final maturity in 2012 and 2014;
- A seven-year Dkr1.75 billion revolving credit facility;
- A seven–year Dkr500 million letter of credit facility; and
- Dkr1.75 billion acquisition facility "A" maturing in 2012.

In addition, the capital structure includes the following uncommitted facilities:

- Dkr3.5 billion acquisition facility "B" maturing in 2014; and
- An additional Dkr750 million seven-year revolving credit facility.

The senior facilities were initially secured by a share pledge in the shares of ISS A/S held by ISS Holding. Further security will be put in place, however. It is 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 will be limitations on the amounts certain subsidiaries can guarantee in accordance with local laws. Neither ISS A/S nor any of its subsidiaries have guaranteed or granted any security relating to the borrowings of ISS Holding (the parent holding company in the group) under the senior facilities. Also, ISS A/S will not pledge its shares in ISS Global A/S.

Drawings under the facilities were about Dkr6.3 billion according to the group's pro forma capitalization at Sept. 30, 2005. Drawings under the facilities have been made by ISS Global and ISS Holding, but are in the future expected to be made by ISS Global and certain operating subsidiaries. ISS Holding is expected to repay its drawings under the facilities no later than Aug. 31, 2006. Other debt in the structure includes a Dkr6.6 billion subordinated bridge facility and a Dkr925 million subordinated PIK bridge facility, both of which are expected to be refinanced in the short term.

Outlook

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

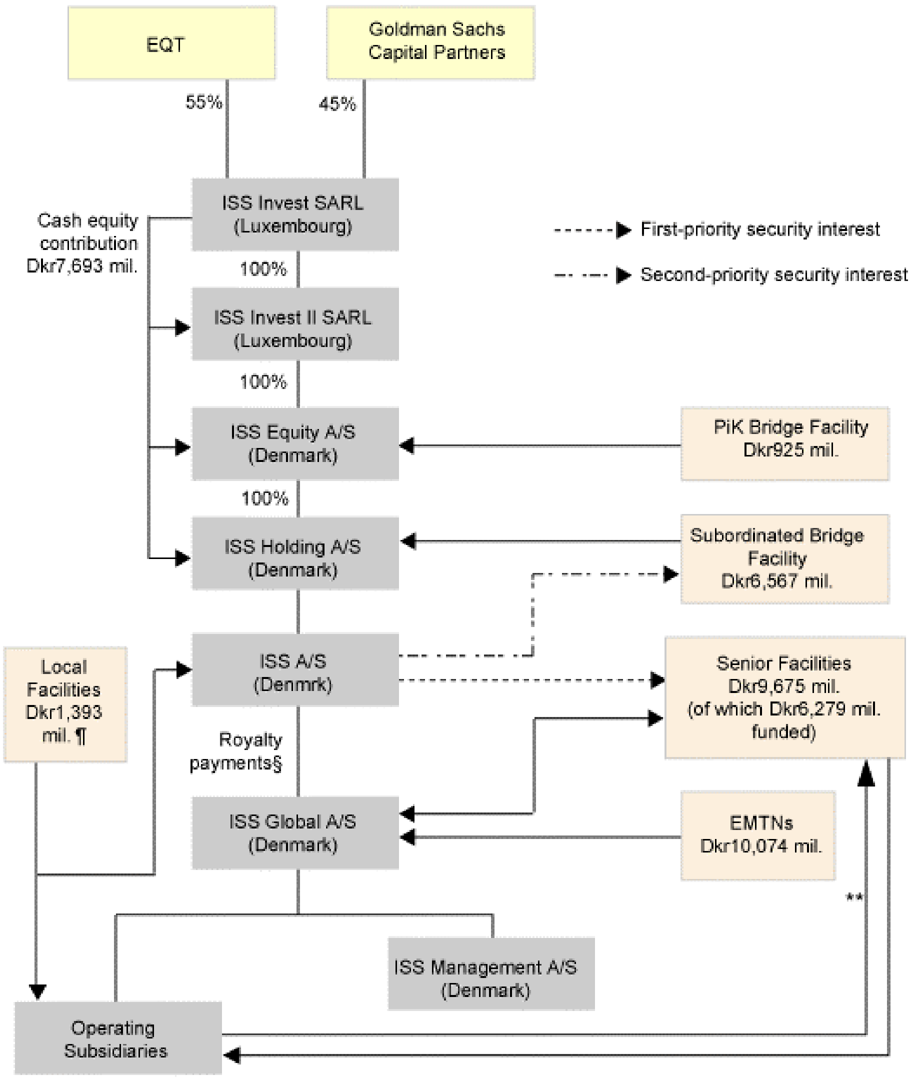
Business Description

ISS is a large and long-established facilities services group, with operations in 43 countries in Northern and Continental Europe, Asia, South America, and Australia. In 2004, the group had sales of Dkr40 billion. The group provides general facilities services for private and public entities, such as:

- Cleaning services, (including washroom services), accounting for 66% of 2004 sales;
- Property services (including landscaping, pest control, damage control services, and maintenance and technical services), accounting for 21% of 2004 sales;
- Catering services, accounting for 5% of 2004 sales;
- Office support services (call centers, reception services, office logistics and access control), accounting for 5% of 2004 sales, and
- Integrated facility services (multiple facility services with on-site management and single-point contact for the customer), accounting for 3% of 2004 sales.

In May 2005, ISS was acquired by a private equity consortium consisting of funds advised by EQT Partners (EQT), which together has 55% ownership in ISS, and Goldman Sachs Capital Partners, which owns the remaining 45%. ISS has subsequently been de-listed from the Copenhagen Stock Exchange.

Overview Of ISS Group Structure*



*Amounts shown represent funded amounts before foreign exchange adjustments. Amounts shown for senior facilities represent committed amounts. Amounts shown for local facilities and European medium-term notes are outstanding amounts at Sept. 30, 2005.

¶At Sept. 30, 2005, ISS Holding's subsidiaries had an amount equivalent to Dkr1,393 million (€187 million) of outstanding borrowings under local debt facilities, comprising primarily working capital facilities entered into by ISS Holding's subsidiaries and a marginal amount of local long-term mortgage facilities to an amount equivalent to €100 million. A portion of these local facilities may be refinanced with borrowings from the revolving credit facility under the senior facilities.

§Subsidiaries of ISS Global pay ISS a royalty of 0.75% of their annual revenue in consideration primarily for the use of ISS' trademarks. The 0.75% rate is lower than historical rates and is evaluated on an arm length's basis on an ongoing basis. The royalty payments are made pursuant to agreements between ISS and its subsidiaries. A subsidiary may terminate its agreement upon six months' prior written notice before such subsidiary ceases to be a direct or indirect subsidiary of ISS. The trademarks of ISS have been pledged as security under the senior facilities.

**ISS Global and certain of its subsidiaries will be able to draw directly on the revolving credit facility, local credit facility, and acquisition facility A.

Source: ISS Holding.

Business Profile

Industry characteristics

The European facility services sector is a fragmented but mature industry, characterized by high-volume, low-value contracts. In most sectors of the market, 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 in recent years has been toward outsourcing many of these mostly essential services. As a result, the industry is generally growing, and is resilient to recession.

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;
- Well-motivated staff with a professional attitude, and the ability to minimize turnover while controlling staff costs; and
- Good internal control systems, and the ability to integrate acquisitions.

Competitive position

ISS is a strong player in the European facilities services business, with particular strength in the Nordic region (accounting for about 30%-35% of its sales). Cleaning services account for about two-thirds of turnover, and in most of the countries where it operates, ISS is the number-one player, with about two-thirds of its business from market-leading positions (top three). As part of its long-term strategy ISS has in recent years increased its focus on broadening its service, developing and offering integrated facility service solutions (which can include a range of cleaning, property, canteen, and office support services). Although this is expected to lead to a gradual rebalancing of the current business mix, cleaning is often a starting point for developing integrated facility service contracts, and it is likely to remain a major activity for the group also in the future. One of ISS' major competitive advantages is its size, which also 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 well-diversified and largely loyal customer base, which lends stability to the business. No single customer contributes as much as 1% of the group's revenues, and the 10 largest customers account for less than 5% of total turnover. Although the industry tends to renew contracts frequently, ISS' level of contract retention has remained stable for some years, at about 90%. The wide customer base and geographical spread give ISS a measure of diversity, despite the largely undiversified business stream. ISS is also expected to increase its presence in emerging markets, such as Brazil, Russia, India, and China.

Acquisitions have been and are likely to remain an essential part in ISS growth strategy, although the group has stated intention to focus increasingly on organic growth. The risks associated with the acquisition strategy are mitigated by management's good track record in integrating the acquisitions and the fact that acquisitions are normally small in size (less than Dkr100 million in sales). On the positive side, the acquisitions have contributed to building up ISS' strong market positions, and widen the service portfolio and geographical reach.

Operating efficiency/profitability

ISS has reasonable operating profit margins for the sector, at 9.2% in 2004 (before depreciation and amortization, lease adjusted). Due to the large number of acquisitions, it is difficult to assess margin development clearly: most acquisitions tend to be of companies with initially lower margins than that of ISS' existing business. Standard & Poor's expects margins to stay broadly flat in the coming years because continued cost efficiencies at ISS might be matched by continued price pressure. We would not expect significant margin deterioration in a downturn, as demonstrated in 2003, and ISS benefits from a highly flexible cost base, which could be quickly adjusted if necessary. Staff costs make up about 70% 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.

ISS has about 305,000 employees. Staff turnover is high, at 49% in 2004 (unchanged from 2003 and 2002), although this is a common industry characteristic. High staff turnover imposes replacement costs, and can affect the quality of service. ISS has a range of strategies to retain its employees, including offering more full-time and daytime work, multitask jobs, career development, and employee shares. At the same time, the high employee turnover makes it easier for ISS to adapt staff levels to any temporary weaknesses in market conditions.

Peer comparison

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/Stable/—). All these companies are leading market players like ISS and benefit from a diversified customer base and geographical spread. As table 1 shows, while Sodexho's and Compass' margins are similar to 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). The three peers have all stronger financial profiles than ISS, after the latter's increased leverage in 2005 following the acquisition by the private equity consortium.

Financial Risk Profile

Accounting

From Jan. 1, 2005, ISS reports according to IFRS, having previously reported according to the Danish Financial Statements Act, including Danish Accounting Standards. The main change from the transfer to IFRS was related to the non-amortization of goodwill, which would have had a Dkr0.9 billion positive effect on ISS A/S' operating profit in 2004, although it is a non-cash item. Reported unfunded postretirement liabilities also increase under IFRS to about Dkr0.7 billion in 2004 from Dkr0.3 billion according to Danish Accounting Standards. At Sept. 30, 2005, the unfunded liability in ISS Holding A/S was Dkr0.8 billion. Although Standard & Poor's views these liabilities as debt-like, they are not material in relation to ISS's overall total debt of over Dkr25 billion.

ISS has material commitments under operating lease agreements, primarily relating to properties and vehicles. Adjusting for these off-balance-sheet commitments, debt increases by about Dkr2.7

billion on a net present value basis, using a 5% discount rate. The debt to EBITDA ratio increases by about 0.5 percentage units. 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 relatively quickly adjust its needs 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 (although all vehicles in a particular country would need to be returned).

Corporate governance/ Risk tolerance/Financial Policy

Following the buy-out by EQT and Goldman Sachs Capital Partners in May 2005, ISS is highly leveraged, with an initial debt-to-EBITDA rate of about 7.3x (including a PIK loan, but not lease-adjusted). Reflecting the likelihood that bolt-on acquisitions will remain a tool for growth, and will probably be financed with internal cash flow and additional debt, Standard & Poor's does not expect material improvements in credit measures over the medium term. Furthermore, as the bolt-on acquisitions normally enhance cash flow immediately, we do not expect any deterioration in credit measures. In addition, any potential 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 for growth investments.

Cash flow adequacy

Although operating margins are relatively low, ISS' free operating cash flow generation is strong, reflecting the low capital intensity of the business. Gross capital expenditure in relation to sales has been less than 2% over the past several years, and operating cash flows have covered gross capital expenditure by 3x-4x. The significantly increased debt levels following the buy-out, however, result in weak cash flow protection measures. In the near to medium term, EBITDA net cash interest coverage is expected to be about 2x, and FFO to net debt in the range of 5%-7% (not lease-adjusted). ISS is, however, even at this high leverage, expected to continue to post positive free operating cash flows. Although free cash flows are expected to be consumed for acquisitions rather than debt reduction, acquisition spending is discretionary and flexible, and can be cut back if needed. Also, 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/Asset protection

The high debt levels result in a weak capital structure for the ratings, with net debt to capital of about 76%. After refinancing, debt consists of about Dkr6.3 billion in senior secured bank loans, Dkr16.8 billion in unsecured bonds and bridge loans, and about Dkr1.4 billion of short-term local bank loan borrowings. In addition, there is a Dkr925 million PIK loan issued by ISS Equity A/S, which has been on-lent to ISS Holding A/S as a subordinated shareholder loan. Although the positive credit features of the PIK loan are subordination to other existing debt, and the fact that no interest is paid until the loan is repaid, Standard & Poor's views the loan as debt (see also Standard & Poor's article "PIK Pressure: How Pay-In-Kind Bonds Have Affected European Corporate Credit Ratings", published on Sept. 20, 2005, on RatingsDirect, Standard & Poor's Web-based credit analysis system).

ISS' EMTN bonds, totaling Dkr10.1 billion, carry low interest rates, as they were issued before the buy-out (when the capital structure was much stronger), and do not include any change of control clauses. This means that the average cost of debt for ISS is relatively low for the current ratings. Debt maturities are also long-dated, with small mandatory annual repayments before 2010, when the €850 million (Dkr6.3 billion) EMTN bond matures.

The balance sheet is heavily oriented toward the short term, with fixed assets comprising about 14% of ISS' Dkr13.3 billion total tangible assets. ISS also has about Dkr28 billion of intangible goodwill resulting from acquisitions within its Dkr43 billion of total assets.

Table 1

ISS Holding A/S Peer Comparison*

	ISS Holding A/S	Rentokil Initial PLC	Sodexho Alliance SA	Compass Group PLC
	Year ended Dec. 31, 2004	Year ended Dec. 31, 2004	Year ended Aug. 31, 2004	Year ended Sept. 30, 2004
Corporate credit rating	B+/Stable/—	BBB/Stable/—	BBB+/Stable/A-2	BBB+/Stable/—
Business profile	Strong	Satisfactory	Strong	Strong
Financial profile	Highly leveraged	Intermediate	Intermediate	Intermediate
Sales (€ mil.)	5,407¶	3,423	11,494	17,352
Operating income/Sales (%)	9.2¶	25.9	7.1	15.1
EBITDA net interest coverage (x)	About 2§	8.7	6.0	5.3
Net debt/EBITDA (x)	7.3§	2.4	2.0	2.9

*Credit ratios adjusted for operating leases. ¶ISS A/S 2004 figures §Pro forma figures LTM ending Sept. 30, 2005. Not lease-adjusted. Net debt including PIK loan. Net cash interest (excluding accrued interest on PIK loan).

Table 2

ISS A/S Historical Financial Statistics*

	Year ended Dec. 31				
(Dkr mil.)	**2004**	**2003**	**2002**	**2001**	**2000**
Revenues¶	40,355	36,165	37,984	34,852	28,719
Operating income	3,731	3,427	3,365	2,743	2,320
Net income¶	131	286	246	222	210
Funds from operations (FFO)	2,595	2,731	2,490	1,958	1,734
Capital expenditures¶	708	585	667	452	412
Net debt	10,138	7,073	7,703	8,325	5,665
Shareholders' equity	8,436	7,741	7,419	6,699	5,730
Total assets	32,351	25,674	24,511	24,427	18,472
Operating income/sales (%)	9.2	9.5	8.9	7.9	8.1
EBITDA net fixed-charge coverage (x)	6.5	7.5	5.9	5.7	6.6
FFO/net debt (%)	25.6	38.6	32.3	23.5	30.6
Free operating cash flow¶/net debt (%)	13.0	25.0	20.6	12.7	15.1
Return on average net adjusted permanent capital (%)	7.8	8.1	7.7	7.1	8.3
Net debt/capital (%)	54.6	47.7	50.9	55.4	49.7

*Based on Danish accounting standards, with operating lease-adjusted values. ¶Not adjusted for operating leases. Dkr—Danish krone.