Annual Report 2005

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ISS A/S

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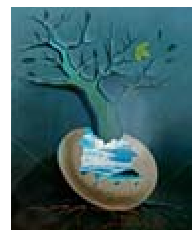

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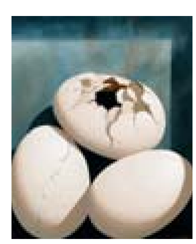


COMPANY INFORMATION

***"Stay"* – Oil on canvas – December 13, 2002.**

Report from Management

Key Figures

Amounts in DKK millions (unless otherwise stated)	IFRS 2005	IFRS 2004	Danish GAAP 2004	Danish GAAP 2003	Danish GAAP 2002	Danish GAAP 2001
Revenue	46,440	40,355	40,355	36,165	37,984	34,852
Operating profit before other items	2,650	2,260	2,279	2,032	2,010	1,633
EBITDA [1]	2,955	2,698	2,827	2,544	2,618	2,160
Adjusted EBITDA [1), 2]	3,309	2,877	2,896	2,619	2,613	2,184
Operating profit [3), 4]	2,296	2,081	2,210	1,957	2,015	1,609
Net finance costs	(521)	(335)	(343)	(265)	(361)	(310)
Profit before impairment/amortization of intangibles	1,281	1,225	1,308	1,179	1,115	898
Net profit for the year [3), 6]	948	837	150	316	264	237
Investments in property, plant and equipment, gross	625	622	622	499	579	615
Cash flow from operating activities	1,623	1,946	1,979	2,345	2,264	1,510
Investments in intangible assets, property, plant and equipment, net	(549)	(583)	(583)	(403)	(525)	(452)
Free cash flow [1]	1,074	1,363	1,396	1,942	1,739	1,058
Dividends paid	(7,229)	(177)	(177)	(88)	–	–
Total assets	31,865	30,805	29,676	23,385	22,412	22,419
Goodwill	16,592	15,384	15,494	12,465	12,669	12,022
Carrying amount of net debt [1]	15,905	7,462	7,462	4,785	5,604	6,317
Non-interest-bearing debt, net [1]	443	238	238	(10)	–	–
Interest-bearing debt, net [1]	15,462	7,224	7,224	4,795	5,604	6,317
Total equity [6]	2,285	8,822	8,436	7,741	7,419	6,678
Financial ratios [1]						
Operating margin before other items, %	5.7	5.6	5.6	5.6	5.3	4.7
Interest coverage	6.3	8.6	8.4	9.9	7.2	7.0
Earnings per share before impairment/ amortization of intangibles, DKK	27.2	27.7	29.5	26.8	25.8	21.6
Dividend paid per share, DKK	153.5	4.0	4.0	2.0	–	–
Cash conversion, % [5]	103	111	107	150	167	118
Free cash flow per share, DKK	22.8	30.7	31.5	44.1	40.2	25.5
Equity ratio, %	7.2	28.6	28.4	33.1	33.1	29.8
Net debt to book equity ratio, %	676.8	81.9	86.5	61.9	75.5	94.6
Employees on full-time, %	61	57	57	55	53	53
Number of employees	310,800	273,500	273,500	245,000	248,500	259,800
Growth						
Organic growth, %	3	1.5	1.5	(2)	1	4
Acquisitions, net, %	11	11	11	(0)	8	18
Currency adjustments, %	1	(0)	(0)	(3)	0	(1)
Total revenue, %	15	12	12	(5)	9	21
Operating profit before other items, %	17	12	12	1	23	12

Note: Except for the key figures derived from the consolidated financial statements on pages 88-148 of this report, the key figures above are not measures of financial performance under Danish GAAP or IFRS. ISS includes these financial measures because it belives that they are appropriate measures of ISS's financial performance. Other companies, including those in ISS's industry, may calculate similarly titled financial measures differently. The applied accounting principles are described in note 1 and the impact of adopting IFRS is discussed in note 37 to the consolidated financial statement.

1) See page 177 for definitions.

2) Adjusted EBITDA, as calculated by ISS, represents, under Danish GAAP, Operating profit before other income and expenses and associates plus Depreciation and amortization or, under IFRS, Operating profit before other items plus Depreciation and amortization. By using operating profit before other income and expenses and associates under Danish GAAP, or Operating profit before other items under IFRS, as a starting point for the calculation of adjusted EBITDA instead of Operating profit, ISS excludes from the calculation of adjusted EBITDA integration costs relating to acquisitions and those items recorded under Other income and expenses, net, in which ISS includes income and expenses that it believes do not form part of ISS's normal ordinary operations, such as gains and losses arising from divestments, the winding up of operations, disposals of property, restructuring and certain acquisition related costs. Some of the items that ISS records under the line item Other income and expenses, net, are recurring and some are non-recurring in nature.

3) The difference in operating profit in 2004 under Danish GAAP and IFRS primarily relates to inclusion of integration costs under IFRS. The difference in net profit under Danish GAAP and IFRS primarily relates to reversal of goodwill amortization, net of goodwill impairment and writedown, amortization of customer contract portfolios and related customer relationships and inclusion of integration costs.

4) Before Share of profit from associates. Comparative figures have been restated accordingly.

5) In 2005, cash conversion was adjusted for the gain of DKK 237 million on the sale of ISS Health Care. In 2003, cash conversion was adjusted for the cash inflow from tax repayment of DKK 168 million related to employee share issues. In 2002, cash conversion was adjusted for the after-tax gain of DKK 74 million on the sale of Sophus Berendsen shares.

6) Including minority interests.

Company Report

FOCUS OF THE YEAR

ISS A/S's ("ISS") agenda for 2005 was to maintain performance in line with its key operational targets, to further strengthen focus on the strategic transformation towards integrated facility services, and to launch a successor to the create2005 strategy plan.

ISS met or exceeded its three key operational targets: to maintain a cash conversion of at least 90%; to maintain an operating margin before other items at the 2004 level and to increase organic growth.

The Group's cash conversion was 103% in 2005. The cash conversion was positively impacted by a net cash inflow of DKK 78 million from a net gain related to a settlement of interest rate swaps, related tax payments and tax payments regarding prior years. Operating profit before other items increased 17% and the operating margin before other items was 5.7% in 2005 compared to 5.6% in 2004. The initiatives to improve organic growth continued and the sales organizations were strengthened in 2005. Organic growth increased to slightly above 3% from 1.5% in 2004.

Operating profit increased 10% impacted by a gain on the divestment of ISS Health Care and costs related to the change of ownership.

During the year ISS passed another important mile-stone as the ISS workforce, which is the foundation for the Group's value creation, increased to more than 310,000 employees in Europe, Asia, Latin America and Australasia.

STRATEGIC TRANSFORMATION

In April 2005, a new strategy plan, Route 101, was presented as the successor to create2005.

The essential point in create2005, the strategy plan launched in 2000, was the development of ISS to become a Facility Services Company. Since the introduction of the plan, ISS has in the period 2000-2005:

- increased revenue by approximately DKK 17.7 billion (62%) from DKK 28.7 billion in 2000 to DKK 46.4 in 2005;
- increased revenue outside cleaning to 39% of Group revenue in 2005;
- increased operating profit before other items by DKK 1.2 billion (82%) from DKK 1.5 billion in 2000 to DKK 2.7 billion in 2005; and
- increased operating margin before other items from 5.1% in 2000 to 5.7% in 2005.

Route 101 is an extension of create2005 in the sense that no change of direction is planned. Route 101 focuses on implementation and action. Route 101 is a destination plan in contrast to the two "term of years" strategy plans, which ISS has announced since 1997. This means that the destination in Route 101 is fixed, but the number of years it will take to reach the destination is variable, depending on business conditions and other circumstances.

The destination described in the new plan is a facility services company with revenue of DKK 101 billion. The route is described in terms of service offerings, organization, geography etc. Hence the name Route 101. By focusing on a destination rather than a fixed span of years, ISS focuses on mapping the initiatives, which are necessary to reach the destination. The plan therefore centers on calibrating the kind of services, organization, systems etc. needed to reach the destination.

Performance Highlights

Revenue increased 15% due to improved organic growth and an unchanged acquisition speed.

Free cash flow was DKK 1,074 million.

Cash conversion was 103%.

Operating margin before other items was 5.7% compared to 5.6% in 2004.

Organic growth was 3%, up from 1.5% in 2004.

Net profit increased 13% impacted by a gain on the divestment of ISS Health Care and costs related to the change of ownership.

On reaching the destination set out in Route 101, ISS should be an integrated facility services provider with a wider geographical footprint than today. The 101-company should fulfill the vision: *Lead Facility Services Globally*.

Route 101 has been well received in the organization and ISS has made strategic progress in 2005. The trend towards integrated facility services solutions continued in the market place and ISS meets increasing interest from customers exploring opportunities from integrating facility services. This was confirmed by the signing of a number of new integrated facility services contracts.

ISS continues to expand the platform for delivering integrated facility services. A key element in Route 101 is to build competencies for managing and delivering cleaning, property, catering and office support services on each of the markets where ISS operates. In 2005, additional competencies were added to the service range through acquisitions in several countries.

Cleaning In most markets, ISS has entered the market by establishing a platform of cleaning services and subsequently bolting-on new competencies to the service offering. This strategy was repeated when China, Estonia, India, New Zealand, Russia, and Turkey were added to the ISS map through acquisitions in 2005. Based on the platform established in Estonia, ISS started up greenfield operations in Latvia and Lithuania in the beginning of 2006. In other geographies, ISS added density to its cleaning platform through bolt-on acquisitions. The organic rollout of the ISS washroom concept progressed and delivery of this service commenced in Ireland, Greece and Switzerland in 2005. So far, the washroom concept has been introduced in 13 countries. Rollout of the dust control concept (rental of mats) follows a plan similar to that of the washroom concept. The concept was developed in a pilot country in 2004 and was introduced in Hong Kong, Indonesia, Singapore and Thailand in 2005.

Property Services In 2005, ISS expanded its offering of property services to new countries and increased density in other markets, where the services were already established. The position in landscaping was further consolidated through acquisitions in several European countries and Australia. The offering of building maintenance and technical services was strengthened, most notably in Switzerland, where four acquisitions were added to ISS's platform. The platform for delivering pest control services was enhanced in France and Spain, and established as a new ISS service in Brazil, Portugal, Thailand and the United Kingdom.

Catering Since 2003, ISS has held a minority stake in Grødegaard, a Norwegian caterer with annual revenue of approximately DKK 242 million. In July 2005, ISS increased its stake in Grødegaard to 100% and thereby expanded its platform for delivering catering services on the Norwegian market. Furthermore, ISS established or expanded its catering services in several countries in 2005.

Office Support The offering of office support services was strengthened through the start-up of greenfield operations and through bolt-on acquisitions. Acquisitions in Norway added competencies to the service offering within temporary staffing and at the end of 2005, a document management provider was acquired. In the beginning of 2006 ISS acquired security companies, which established a platform for delivering access control in the Netherlands, Thailand and the United Kingdom.

Facility Services Management Management of facility services is a cornerstone in ISS's integrated facility services offering. An important step towards integrated facility services was taken in Asia with the acquisition of EastPoint, giving ISS Hong Kong additional competencies within facility management. In the beginning of 2006, facility management was also added in Central Eastern Europe through the acquisition of a provider of these services to customers in the Czech Republic, Hungary and Slovakia.

STREAMLINING THE BUSINESS

In line with its strategy of further focusing the business, ISS decided to exit the Swedish health care business, downscale the damage control business and discontinue the German hospital cleaning services business.

In the beginning of 2005, ISS's food hygiene and damage control activities were merged with the facility services country organizations to reduce and provide more flexibility to the costs base. Accordingly, these activities are no longer reported separately.

Health Care In 2005, ISS decided to divest its Health Care operations in Sweden after completing a turnaround of the business in 2004 and aligning the operational setup to the current market situation with a changed demand side. The divestment was completed in two steps. Effective February 1, 2005, ISS acquired the remaining 51% stake in CarePartner, an elderly care business, and subsequently sold all its interests and 100% of its Swedish health care business, which provided diagnostic and certain other medical services, to a newly formed joint venture entity, now named Aleris Holding AB ("Aleris"), owned by EQT III Limited, ISS and Aleris's management. Results from ISS's 45% interest in the joint venture were consolidated on a pro rata basis in ISS's financial statements from February 2005 until the end of June 2005, when ISS sold this 45% interest to EQT III Limited. The total net gain of the two transactions amounted to approximately DKK 237 million and was recognized in Other income and expenses.

Discontinuation of German hospital cleaning services business ISS decided to discontinue its German hospital cleaning services business due to the competitive disadvantage caused by prevailing discriminating VAT regulations, which do not allow public sector hospitals to deduct VAT, thereby motivating in-sourcing of service contracts. The business is discontinued through a phase-out of remaining customer contracts and a controlled reduction of the labor force. All sales and business development activities ended immediately and existing customer contracts are phased-out over 24 months. As a result of the decision, revenue in the hospital services segment decreased by approximately DKK 150 million in 2005. The remaining part of the phase-out will be carried out during 2006.

In line with the announcement made in February 2005, the organic growth calculation for ISS Germany and the Group will only include the continuing operations. The phased-out revenue in the German hospital services business, which in 2004 represented approximately DKK 400 million annually, has been shown as a separate line in the revenue gap specification presented on page 78 of this report.

Termination costs, primarily redundancy payments, of DKK 35 million were recognized in the income statement for 2005 in Other income and expenses.

Downscaling of ISS Damage Control activities In recent years, a declining market and structural changes in the damage control industry has diminished profits in ISS Damage Control. In response to these changes ISS decided to downscale its activities, thus reducing exposure to market volatility by reducing the fixed cost base. Furthermore, it was decided to merge the damage control activities into the facility services country organizations in order to reduce and provide more flexibility to the cost base. Costs associated with the restructuring of the damage control business and divestments of damage control activities in Israel and Sweden amounted to DKK 59 million, which were recognized in Other income and expenses.

CHANGE OF OWNERSHIP

On March 29, 2005, FS Funding A/S ("FS Funding") made a public tender offer to acquire 100% of the shares in ISS A/S at a price of DKK 470 per share. The offer was based exclusively on public information and was not conditional on the outcome of a due diligence. The offer price was subsequently reduced to DKK 465 as a consequence of the dividend payment of DKK 5 per share approved by ISS's Annual General Meeting on April 13, 2005. FS Funding is indirectly owned by funds advised by EQT Partners and Goldman Sachs Capital Partners.

Neither the Board of Directors nor the management of ISS A/S or anyone else in ISS knew or should have known about the interest from EQT Partners and Goldman Sachs Capital Partners prior to the contact made to the chairman of the Board of Directors in March 2005. Prior to the public tender offer and during the tender offer period no non-public information was furnished to EQT Partners or Goldman Sachs Capital Partners and no management presentations were made.

In accordance with its stated policy to act in the interest of ISS's shareholders in connection with any take-over attempt, the Board of Directors evaluated the public tender offer and announced a statement to the shareholders, which included a description of advantages and disadvantages of accepting the public tender offer. On April 27, 2005, in the absence of competing bids, the Board of Directors announced their unanimous recommendation to accept the public tender offer.

As described above, ISS launched the strategy plan, Route 101, during the tender period. The decision to launch the strategy on April 14, 2005, was made before the announcement of the public tender offer. Neither the contents nor the format of Route 101 was influenced by the pending public tender offer.

On June 10, 2005, more than 98% of the shareholders had accepted the public tender offer and following a squeeze-out of minority shareholders and de-listing of the ISS shares from the Copenhagen Stock Exchange, the acquisition of 100% of ISS's shares was completed on July 26, 2005.

The change of ownership led to one-off costs, which included professional and advisory fees, a stay-on bonus for the Executive Management Board (the "EMB") and certain key employees of ISS Management A/S ("ISS Management"), and settlement of the EMB's bonus accounts. The total one-off costs of DKK 194 million were recognized in Other income and expenses in 2005. Following the change of ownership, ISS offered a settlement of outstanding warrants and options to eligible holders. Settlement of warrants and options was taken directly to equity in the amount of DKK 215 million, offset by tax of DKK 44 million. Costs of DKK 9 million related to settlement of stock options and warrants were recognized in Other income and expenses.

Governance structure At the Extraordinary General Meeting held on May 27, 2005, the members of the Board of Directors of ISS A/S stepped down and funds advised by EQT Partners and Goldman Sachs Capital Partners nominated new members to the Board of Directors. On October 26, 2005, Leif Östling was appointed Chairman of the Board of Directors. For further information on the composition of the Board of Directors of ISS A/S, please see page 21 of this report and note 33 to the consolidated financial statements.

From July 1, 2005 – December 31, 2005, Richard Sharp held the position as Managing Director of ISS A/S. Effective January 1, 2006, Richard Sharp stepped down as Steen Parsholt was appointed new Managing Director of ISS A/S. For further information on the management of ISS A/S, please see page 21 of this report and note 33 to the consolidated financial statements.

Effective July 1, 2005, ISS A/S entered into a management agreement with ISS Management, a subsidiary indirectly owned by ISS A/S through ISS Global A/S ("ISS Global"). As part of the agreement, the employment of officers and employees of ISS A/S was transferred to ISS Management.

Under the agreement ISS Management provides certain operational and administrative management services to ISS. Responsibility for decisions regarding the overall strategy, financing and other policy matters remains with the Board of Directors and management of ISS A/S.

For further information on the governance structure, please see the Corporate Governance section on pages 14-20 of this report.

To reflect stronger focus on the management of debt financing, the EMB of ISS Management was reorganized and the Chief Financial Officer position was divided in two positions. Jeff Gravenhorst was appointed Chief Financial Officer with responsibility for operational finance, reporting, controlling and IT, and Karsten Poulsen was appointed Chief Treasury Officer with responsibility for treasury, procurement and risk management.

On February 7, 2006, ISS Management announced the appointment of Allan Aebischer, Stig Pastwa and Hans John Øiestad as Chief Operating Officers and members of the EMB of ISS Management. In addition it was announced that Flemming Schandorff has decided to retire effective as of April 1, 2007, from his position as Chief Operating Officer and member of the EMB, due to age.

Capital structure Following the change of ownership, the new Board of Directors decided to change the capital structure of ISS through payments of interim dividends to FS Funding totaling approximately DKK 7 billion.

Responding to the changed capital structure, Standard & Poor's decided to change their corporate credit ratings of ISS A/S and ISS Global A/S from BBB+ to B+ with stable outlook while the rating of ISS Global's Medium Term Notes was changed from BBB+ to B-.

On November 7, 2005, FS Funding announced that it had finalized the financing arrangements relating to its acquisition of ISS A/S. The senior facilities are subject to customary undertakings, covenants (including financial covenants) and other restrictions. Neither ISS

A/S nor any of its direct or indirect subsidiaries have guaranteed or granted any security for FS Funding's borrowing used for financing the acquisition of ISS A/S.

During the period May – October 2005, a Danish and an English law firm representing certain holders of ISS Global's Medium Term Notes engaged in discussions with the board of directors of FS Funding, ISS and ISS Global regarding the financing of the acquisition of ISS A/S by FS Funding. In October 2005, the group of noteholders instructing the two law firms informed ISS Global that they were satisfied that the specific nature of the proposed financing would not result in any infringement of the terms of the Medium Term Notes nor would the proposed financing be otherwise unlawful. Further information is set out on pages 43-44 of this report.

As a consequence of the changed capital structure, ISS relies on FS Funding to provide sufficient financing for the Group's continued growth as set out in Route 101. See pages 32-47 for further information on risk factors that could have an adverse impact on the financial position of FS Funding.

Group Restructuring Project In the autumn of 2005, the EMB initiated a Group Restructuring Project comprising certain organizational and structural changes to reduce ongoing costs in a number of countries. The project included physical relocations, termination of leaseholds, redundancy payments, and contract restructuring. The Board of Directors approved an expenditure of DKK 250 million, of which DKK 224 million was recognized in Other income and expenses in 2005. The remaining DKK 26 million is expected to be expensed in 2006.

ACQUISITIONS

ISS's acquisition activity in 2005 was in line with the strategy of making bolt-on acquisitions in order to strengthen the competencies, enhance the service offering or establish critical mass. The change of ownership and the de-listing from the Copenhagen Stock Exchange did not change the Group's objective of maintaining the acquisition speed from 2004, which was reflected in 102 bolt-on acquisitions that are expected to add annual revenue of approximately DKK 4.2 billion, equivalent to approximately 9% of the Group's 2005 revenue.

In December 2004, ISS was invited by DB Capital Partners to invest in Australian-based Tempo Services Ltd. through Pacific Service Solutions and to take the company private. ISS has, since April 2005, owned 49% of the shares in Tempo indirectly through Pacific Service Solutions. On February 13, 2006, ISS announced the acquisition of the remaining 51% of the shares in Tempo which were previously owned by investors managed by DB Capital Partners.

ISS expects to continue to make acquisitions to facilitate its strategy of increasing local scale, broadening its local service offering and accessing new markets. Since the beginning of 2000, ISS has acquired and integrated more than 400 businesses, more than 350 of which were acquisitions of relatively small businesses with annual revenues of less than DKK 100 million. Since 1998, the two largest acquisitions have been Abilis in France and Benelux, and Tempo Services Ltd. in Australia which on the date of completing the acquisition had estimated revenue of approximately DKK 5.2 billion and approximately DKK 2.9 billion, respectively. ISS expects to continue to focus primarily on smaller acquisitions, which it believes will reduce the risks relating to individual acquisitions and enable it to leverage the experience of local management teams throughout its countries of operation. ISS cannot provide any assurance, however, that it will not pursue larger acquisitions in the future. To access new geographic markets, ISS intends to establish operating platforms in growth markets, including through acquisitions. A list of acquisitions is presented in note 12 to the consolidated financial statements.

DIVESTMENTS

In addition to the sale of the ISS Health Care operations described above, ISS divested its activities in Japan in 2005. The business in Japan was based on a 50/50 joint venture with Mitsui & Co Ltd. The business performance had not been satisfactory over a number of years and ISS decided to sell its interest in Japan to Mitsui & Co Ltd. The gain of DKK 10 million was recognized in Other income and expenses.

Including the divestments described above, ISS divested 18 businesses in 2005 representing revenue of approximately DKK 1.2 billion on an annual basis. A list of divestments is presented in note 12 to the consolidated financial statements.

FINANCIALS

Total revenue in 2005 was DKK 46.4 billion against DKK 40.4 billion in 2004, an increase of 15%. The increase was due to the net effect from acquisitions and divestments of 11% and organic growth of 3%. Currency adjustments impacted growth by 1% resulting from a positive impact from Norwegian kroner and dollar-related currencies being partly offset by a depreciation of Swedish kroner and Pound Sterling against Danish kroner. The decrease in revenue resulting from the above mentioned discontinuation of the German hospital cleaning services was approximately 0.4%.

Operating profit before other items increased by 17% to DKK 2,650 million and the operating margin before other items was 5.7% compared to 5.6% in 2004. In line with previous years, changes in social legislation, pensions and a number of non-recurring items affected the Group in 2005, but the overall net effect was not material to the Group.

Profit before impairment/amortization of intangibles was DKK 1,281 million, up 5% compared with 2004.

Cash flow from operating activities of DKK 1,623 million was impacted by items not included in the income statement including a cash inflow of DKK 514 million related to a gain on settlement of interest rate swaps, of which DKK 45 million was included in the income statement in 2005. The remaining gain of DKK 469 million will be included in the income statements for the financial years 2006-2014. Furthermore, tax payments of DKK 391 million, primarily related to the settlement of interest rate swaps and payments related to prior years, did not impact the income statement.

The free cash flow of DKK 1,074 million did not include the gain on the divestment of Health Care, which was included in profit before impairment/amortization of intangibles. Accordingly, the calculation of cash conversion was adjusted for the gain of approximately DKK 237 million.

The cash conversion ratio was 103% in 2005, positively impacted by the net cash inflow of DKK 78 million relating to cash flows described above, which did not impact the income statement in 2005.

Net interest-bearing debt increased from DKK 7,224 million to DKK 15,462 million at year-end

2005. The net interest-bearing debt excluded non-interest-bearing items, which are included in long-term debt in the balance sheet. In 2005, non-interest-bearing items amounted to DKK 443 million and were primarily related to the part of the above-mentioned gain on interest rate swaps, which will be included in the income statements for the financial years 2006-2014. The increase in net interest-bearing debt was primarily due to payment of interim dividends of approximately DKK 7 billion and acquisitions made during the year.

REGIONAL DEVELOPMENT

Revenue in Northern Europe (excluding Health Care), comprising the United Kingdom, Sweden, Denmark, Norway, Finland, Ireland, Iceland, Greenland, Russia, Estonia and the Faroe Islands increased from DKK 17.9 billion in 2004 to DKK 20.3 billion.

Organic growth in Northern Europe was 2%, up from 1% in 2004. A positive performance in most countries of the region was partially offset by negative organic growth in Sweden. Growth from net acquisitions was 11% with all countries in Northern Europe being active on the market for acquisitions and country establishments in Russia and Estonia. The operating margin before other items was 6.4% compared to 6.2% in 2004. The improvement stemmed from better performance in Denmark and Sweden compared with 2004. In addition, the operating margin before other items in Norway increased due to a settlement of a defined benefit plan. The increase was partially offset by a decrease in the operating margin before other items in Finland.

Continental Europe includes France, the Netherlands, Belgium and Luxembourg, Spain, Germany, Switzerland, Austria, Turkey, Portugal, Greece, Italy, the Czech Republic, Slovenia, Slovakia, Poland, Romania, Hungary and Croatia. Revenue in the region was DKK 23.2 billion, an increase of 17% compared with 2004. The organic growth rate in the region increased from 2% in 2004 to 4%, particularly driven by France, Spain and Austria. The operating margin before other items was 6.2% compared to 6.0% in 2004. Improvements in the operating margin before other items in Belgium, Germany, Spain, Austria and Switzerland were partially offset by a decrease in France.

Overseas, consisting of Asia (excluding Japan), South America, Australia, New Zealand and Israel, reported revenue of DKK 2.5 billion in 2005, up 31% from 2004. Organic growth amounted to 8%, particularly as a result of organic growth in Hong Kong, Indonesia, Brazil and Thailand. All countries in Overseas except

Operating results [1)]

	Revenue DKK millions			Operating profit before other items DKK millions			Operating margin	
	2005	2004	Change	2005	2004	Change	2005	2004
Northern Europe	20,338	17,949	13 %	1,306	1,113	17 %	6.4 %	6.2 %
Continental Europe	23,203	19,771	17 %	1,437	1,189	21 %	6.2 %	6.0 %
Overseas	2,540	1,938	31 %	152	119	28 %	6.0 %	6.1 %
Discontinued operations	359	697	(48)%	40	66	(39)%	11.1 %	9.5 %
Corporate	–	–		(285)	(227)	(26)%	(0.6)%	(0.6)%
Group	**46,440**	**40,355**	**15 %**	**2,650**	**2,260**	**17 %**	**5.7 %**	**5.6 %**

1) ISS has prepared its consolidated financial statements for 2005 in accordance with the International Financial Reporting Standards (IFRS). Comparative figures for 2004 have been restated to IFRS and consequently may differ from the figures published in the Annual Report 2004, which was prepared in accordance with Danish GAAP. The applied accounting policies are described in note 1 to the consolidated financial statements and the impact of adopting IFRS is discussed in note 37 to the consolidated financial statements.

Israel saw positive organic growth in 2005. Currency adjustments increased revenue by approximately 4% while acquisitions, net, added approximately DKK 0.3 billion, or 16%, to revenue. The operating margin before other items was 6.0% compared to 6.1% in 2004.

The discontinued operations in ISS Health Care and ISS Japan generated revenue attributable to ISS of DKK 359 million and operating profit before other items of DKK 40 million.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

ISS has prepared its consolidated financial statements for 2005 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The applied accounting policies are described in note 1 and the impact of adopting IFRS is discussed in note 37 to the consolidated financial statements.

SUBSEQUENT EVENTS

ISS has made a number of acquisitions subsequent to December 31, 2005. The aquisitions are listed in note 12 to the consolidated financial statements. Most significantly on February 13, 2006, ISS announced the acquisition of the remaining 51% of the shares in Tempo Services Ltd. which were previously owned by investors managed by DB Capital Partners.

Apart from the above and the events described in this Annual Report, ISS is not aware of events subsequent to December 31, 2005, which are expected to have a material impact on ISS's financial position.

DIVIDEND

At the Annual General Meeting, the Board of Directors intends to propose that a dividend of DKK 800 million be paid in respect of the 2005 financial year.

Forward-looking statements

This report may contain forward-looking statements. 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", "should" 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, which 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 as a result of the matters described in the Risk Factors beginning on page 32 of this report, including:

- the demand for the services offered by ISS, which is primarily dependent upon outsourcing trends and macroeconomic conditions, including economic growth, inflation or deflation;
- risks related to ISS's growth strategy, including potential contingent liabilities of acquired businesses and failure to manage growth and integrate acquired businesses successfully;
- risks related to the substantial indebtedness including fluctuations in interest rates and limitations on additional debt to finance ISS's acquisition strategy and access to capital to finance its operations;
- ISS's ability to operate profitably, in particular under fixed-price or long-term contracts;
- ISS's exposure to currency-related risks, particularly the value of the Danish kroner against other currencies;
- complexities related to compliance with regulatory requirements of many jurisdictions as a result of ISS's international operations and decentralized organizational structure;
- ISS's dependence on its management team and qualified personnel;
- ISS's potential liability for acts of its employees, including negligence, injuries, omissions and willful misconduct;
- the threat, institution or adverse determination of claims against ISS;
- potential environmental liabilities; and
- any adverse effect on ISS's operating results and cash flows from the impact of changes to laws and regulations, including health and safety and environmental laws and regulations.

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.

Governing text

The Annual Report has been translated from Danish into English. The Danish text shall be the governing text for all purposes and in case of any discrepancy the Danish version shall prevail.

Corporate Governance

GOVERNANCE STRUCTURE

ISS A/S ("ISS" or the "Company") is a limited liability company incorporated and operating under Danish law. On January 1, 2005, the Company's shares were held by approximately 18,000 shareholders and publicly traded on the Copenhagen Stock Exchange.

In 2005, ISS was de-listed from the Copenhagen Stock Exchange following a public tender offer by FS Funding A/S ("FS Funding") to acquire the shares of the Company. FS Funding was incorporated in March 2005 for the purpose of the acquisition of ISS (the "Acquisition") and is indirectly owned by funds advised by EQT Partners ("EQT") and Goldman Sachs Capital Partners ("GS Capital Partners"). The Acquisition was completed on July 26, 2005.

ISS is committed to good corporate governance, which is recognized as fundamental to all ISS's activities as it benefits stakeholders and the business itself. The Danish Shareholders' Association has given its award for best corporate governance among the companies listed on the Copenhagen Stock Exchange to ISS in 2002 and 2004. In October 2005, ISS was the winner of a special category of the Danish Accounting Awards for its description of the expected impact from the implementation of International Financial Reporting Standards (IFRS) in the Annual Report 2004.

At an Extraordinary General Meeting held on May 27, 2005, the members of the Board of Directors of ISS A/S stepped down and EQT and GS Capital Partners appointed new members to the Board of Directors (the "Board").

Decisions regarding the Group's overall strategy, financing and other policy matters are made by, and are the responsibility of the Board and the management of ISS A/S.

Management Services Agreement On June 30, 2005, ISS entered into a Management Services Agreement with ISS Management A/S ("ISS Management"), a wholly owned subsidiary of ISS Global A/S ("ISS Global"). FS Funding and FS Equity A/S ("FS Equity") subsequently acceded to the agreement.

Under the agreement, ISS Management provides certain operational management services to the subsidiaries of ISS Global and certain administrative services to FS Equity, FS Funding, ISS and ISS Global. Pursuant to the agreement, ISS Management has also assumed the obligations of ISS under its management agreements with the operating subsidiaries of ISS Global. ISS Management receives a fee as consideration for management services rendered.

In order to reflect the new governance structure, the officers and employees of ISS were transferred to ISS Management effective July 1, 2005.

The Management Services Agreement may be terminated by ISS Management at 12 months' notice, and the senior managers of ISS Management may terminate their existing employment contracts following expiration of notice periods ranging from 6 to 12 months.

Corporate governance policies and procedures At the initiative of the Danish government, "The Nørby committee's report on corporate governance in Denmark – recommendations for good corporate governance in Denmark" was presented at the end of 2001. In January 2004 and May 2005, a corporate governance committee under the Copenhagen Stock Exchange (the "CSE committee") has proposed revisions to the recommendations of the Nørby committee.

The sections below set out ISS's corporate policies and procedures on the basis of the eight areas of recommendation in the CSE committee's report. ISS complies with the majority of the recommendations. However, the CSE committee's recommendations primarily target corporate governance of companies listed on the Copenhagen Stock Exchange, i.e. companies with a broad shareholder base. Being privately held, the shareholders of ISS can directly interact with the Board and consequently, several of the recommendations are not relevant for ISS. This is most notably the case for the recommendations relating to the role of the shareholders and their interaction with the management of the company and the composition of the Board of Directors.

SHAREHOLDERS

ISS is a wholly owned subsidiary of FS Funding, which is indirectly owned by funds advised by EQT and GS Capital Partners (the "Principal Shareholders").

EQT is one of Europe's leading private equity firms, managing equity investments of approximately EUR 6 billion through its funds. In the last ten years, funds advised by EQT Partners have acquired 40 companies, 20 of which have been publicly listed or resold. EQT Partners, acting as exclusive investment advisor to EQT, is headquartered in Stockholm and maintains offices in Copenhagen, Munich, Frankfurt and Helsinki.

GS Capital Partners is managed by the Principal Investment Area of Goldman Sachs, a global leader in corporate equity and mezzanine investing. To date, the Principal Investment Area of Goldman Sachs has formed investment vehicles with more than EUR 26 billion of capital and through its funds has invested approximately EUR 18 billion in over 300 companies.

Shareholders' Agreement In connection with the financing and execution of the acquisition, the Principal Shareholders entered into a shareholder's agreement applying to any entities through which EQT and GS Capital Partners hold their interest in ISS. The description below relates to implications of the shareholders' agreement on ISS.

Under the shareholders' agreement the Board shall consist of six members. Each of EQT and GS Capital Partners are entitled to nominate three directors each. EQT has the right to nominate the chairman of the Board, after consultation with GS Capital Partners. In addition, each of EQT and GS Capital Partners is entitled to appoint one deputy member of the Board who shall be entitled to be present at Board meetings, but the two deputy members shall only be entitled to vote if they are standing-in for a Board member who is unable to attend the meeting.

The Board will generally act by simple majority, with the Chairman casting the deciding vote in the event of a tie. However, under the shareholders' agreement, certain actions require special approval of one or both of the Principal Shareholders.

STAKEHOLDERS

ISS is committed to creating value for all its key stakeholders, i.e. investors, customers, employees, suppliers and the societies in which it operates. The commitment is vested in ISS's four corporate values: honesty, entrepreneurship, responsibility and quality. This is based on the recognition that stakeholder value is directly connected to the financial performance.

ISS has developed a corporate code of conduct endorsed by the Board. The code applies to all ISS's executives, managers and employees and is intended to assist them in carrying out their duties and responsibilities to high ethical standards. The code of conduct is available from the corporate website: www.issworld.com.

The stakeholder approach is also put into practice in dialogues and partnerships with the United Nations (the Global Compact initiative), the European Works Council and Amnesty International's Business Club. Relations with stakeholders are described in further detail in the Stakeholder Review on pages 23-31 of this report.

OPENNESS AND TRANSPARENCY

In addition to its country-specific websites, ISS has a corporate website: www.issworld.com. Financial statements and other announcements are posted on ISS's website. ISS endeavors to keep the website up to date at all times. Due to ISS's international relations, the website is in English.

ISS has prepared its consolidated financial statements for 2005 in accordance with the International Financial Reporting Standards (IFRS). The applied accounting policies are described in note 1 and the impact of adopting IFRS is discussed in note 37 to the consolidated financial statements. The annual reports of ISS include financial as well as non-financial information.

For information about the ISS Group, stakeholders are always welcome to contact ISS Management's Corporate Communication department. Questions from investors may be directed to Corporate Treasury of ISS Management.

THE TASKS OF THE BOARD

The Board functions in accordance with the rules set out in the Danish Public Companies Act, the shareholders' agreement and its rules of procedure, which provide guidelines for the Board's work in general and prescribe any special duties assigned to the Chairman of the Board.

The current strategy, Route 101, was approved by the Board before FS Funding completed the Acquisition. Following the change of ownership, the new members of the Board resolved to continue the Route 101 strategy. A description of Route 101 is available from the corporate website: www.issworld.com. It contains the ISS's visions, goals, core values etc. In addition, detailed plans and business procedures are described in manuals and guidelines for a number of functions.

The Board meets according to a pre-defined meeting schedule. Extraordinary meetings are convened whenever specific matters need attention between scheduled meetings. The Board is briefed about important matters in the periods between Board meetings.

The monthly reporting is the primary, formal communication vehicle between management and the Board. The Board approves the annual budget and receives recommendations on potential large or strategic acquisitions and other information as and when required.

COMPOSITION OF THE BOARD

The directors are nominated to the Board in accordance with the shareholders' agreement described above. The membership of the Board is identical to that of the Board of Directors of its parent, FS Funding. Currently, six directors, Leif Östling (chairman), Ole Andersen, Jørgen Lindegaard, Sanjay Patel, Christoph Sander and Richard Sharp serve on the Board while Peter Korsholm and Steven Sher are alternate directors. No Board committees have been established.

A further description of the Board members is available on page 21 of this report and in note 33 to the consolidated financial statements.

No rules are in place in respect of Board members' directorships in other companies and the company believes that the present composition of the Board does not conflict with good corporate governance.

Richard Sharp assumed the position as Managing Director of ISS from July 1, 2005, until December 31, 2005, when Steen Parsholt was appointed Managing Director of ISS. Steen Parsholt's other directorships are listed in note 33 to the consolidated financial statements.

ISS Management A/S As described above, ISS has entered into a management agreement with ISS Management. The board structure of ISS Management is two-tiered consisting of a Board of Directors and an Executive Management Board (the "EMB"). The Board of Directors supervises the company's activities, its management and organization including the EMB's performance of its duties under the Management Services Agreement. The EMB is responsible for ISS's day-to-day operations. The two bodies are separate and do not have overlapping members.

The EMB of ISS Management consists of Eric S. Rylberg, Chief Executive Officer; Allan Aebischer, Chief Operating Officer; Thorbjørn Graarud, Group Chief Operating Officer, Northern Europe and Asia; Jeff Olsen Gravenhorst, Chief Financial Officer; Stig Pastwa, Chief Operating Officer; Karsten Poulsen, Chief Treasury Officer; Flemming Schandorff, Group Chief Operating Officer, Continental Europe and Overseas; and Hans John Øiestad, Chief Operating Officer. The EMB and certain senior officers of ISS Management constitute the corporate management team (the "Corporate Management Team") of ISS Management.

ISS Management is a direct subsidiary of ISS Global. The membership of ISS Management's Board of Directors is identical to that of the Board of Directors of ISS and ISS Global, except that the Board of Directors of ISS Management includes the following directors elected by its employees: Karina Deacon, Executive Vice President, Head of Corporate Affairs of ISS Management; Flemming Quist, Finance Manager with ISS Management; and Tina Hilligsø, a secretary with ISS Management.

ISS Management's in-house rules stipulate that no member of the EMB and the Corporate Management Team can hold more than three directorships in companies outside the ISS Group. Remuneration received in respect of directorships in companies outside the ISS Group by members of the EMB and Corporate Management Team are retained by the member and ISS assumes no liability for such directorships. Directorships in companies in the ISS Group held by members of the EMB or the Corporate Management Team are not remunerated separately.

REMUNERATION

Since the Extraordinary General Meeting on May 27, 2005, no fees have been paid by ISS to the newly appointed members of the Board. The Board members who stepped down from the Board on May 27, 2005, received fees totaling approximately DKK 1.7 million for their services in 2005. From January 1, 2005, to June 30, 2005, ISS paid salaries totaling approximately DKK 9.8 million, including approximately DKK 0.3 million in pension contributions, to the members of the EMB of ISS A/S.

The Board resolved on March 29, 2005, to grant the members of the EMB a bonus, based on the Acquisition price, totaling approximately DKK 10 million. The EMB also received a stay-on bonus, equal to approximately DKK 28 million, and in connection therewith agreed that they will not be entitled to payments under "golden parachutes" in relation to the change of control which occurred in May 2005. In addition, certain key employees of ISS were granted a stay-on bonus conditioned upon the closing of the Acquisition and continued employment with ISS for a period of six months following completion of the Acquisition. The total stay-on bonus equaled an amount of approximately DKK 30 million, which was paid in November 2005. Following the Acquisition, the EMB members also received the amount vested in their individual EVA bonus accounts equivalent to approximately DKK 8 million. All of the amounts above are a consequence of resolutions and arrangements made by the Board of Directors of ISS A/S before the company was taken over and subsequently de-listed.

As a consequence of the Acquisition, options granted to the EMB and certain former EMB members and warrants granted to officers having an exercise price below the per share price paid pursuant to the Acquisition were settled. The settlement totaling DKK 215 million was carried out either through direct settlement of such securities or through acquisition of shares issuable under such options and warrants as described in note 4 to the consolidated financial statements.

On July 1, 2005, in connection with the execution of the Management Services Agreement and transfer of the executive officers from ISS, ISS Management entered into employment agreements with each of the members of its EMB.

Eric S. Rylberg's and Thorbjørn Graarud's contracts are subject to termination at two years' notice, Allan Aebischer's contract is subject to 18 month's notice and Karsten Poulsen's, Jeff Gravenhorst's, Flemming Schandorff's, Hans John Øiestad's and Stig Pastwa's contracts are subject to one year's notice. Eric S. Rylberg and Thorbjørn Graarud are entitled to terminate their contracts at one years' notice, Allan Aebischer is entitled to terminate his contract at nine month's notice and Karsten Poulsen, Jeff Gravenhorst, Flemming Schandorff, Hans John Øiestad and Stig Pastwa are entitled to terminate their contracts at six month's notice. Flemming Schandorff has notified the company of his decision to step down as Group Chief Operating Officer and retire due to age effective April 1, 2007.

These contracts are generally unchanged from the forms of employment contracts in place between ISS and the relevant individuals prior to July 1, 2005. The contracts contain standard terms for each of the executive officers, other than with respect to individual compensation amounts and, in addition, Eric S. Rylberg's contract provides that he will be entitled to special compensation if his employment ceases other than by virtue of his resignation (provided that such resignation is not attributable to a takeover of ISS or a material breach of his service contract by ISS). This special compensation is equivalent to 10% of Mr. Rylberg's annual salary multiplied by his years of service from January 1, 2003 (with any partial year service being rounded up to the nearest whole year). Such compensation would be payable in monthly installments commencing in the month following his termination and would continue until he reaches the age of 62 or his death, whichever occurs first. If he retires from ISS at the age of 62, the compensation would be payable in full as a lump sum.

Except for Hans John Øiestad and Allan Aebischer, all members of the EMB have a golden parachute. In the event of a change of control of ISS, the members may terminate their employment at will. Should they elect to do so, each EMB member is entitled to compensation equivalent to one year's salary. If ISS is taken over, the members of the EMB will receive the amounts, if any, vested in their individual EVA bonus accounts.

Management participation program The Corporate Management Team and certain officers at country management level will be invited to invest in shares and warrants of FS Invest S.à r.l, the indirect parent of ISS, as part of a management participation program.

RISK MANAGEMENT

ISS strives to identify risk factors that may have an adverse effect on the ISS Group's activities, financial position, results and future growth. Some of the risk factors that may have an adverse impact on ISS are described on pages 32-47 of this report.

ISS considers strong controls to be an essential management tool. Accordingly, reasonable care is taken to ensure that a sound framework of controls is in place for safeguarding the business. However, such controls are designed to manage rather than eliminate the risks and can provide only reasonable and not absolute assurance against material misstatements or losses.

The policies and procedures set out below reflect the principal features of the ISS Group's control environment.

Overall, the operational and financial risk is managed in accordance with a policy adopted by the Board.

Operational risk management principally focuses on procedures for claims management, entering into contracts, occupational safety, the environment and the safeguarding of physical assets. Operational risk is assessed on the basis of the activities of each operating company, historic and current claims events, and the markets in which the companies operate. Operational risk is monitored and hedged in accordance with ISS Group standards for risk management, risk financing and good operational practice. Operational risk financing is based on insurance and own funding, primarily through local and global insurance programs including a captive scheme (Global Insurance A/S), all coordinated centrally in ISS.

Financial risk management principally focuses on interest rate risk, currency risk and credit risk. The ISS Group's financial risk management is described in note 32 to the consolidated financial statements.

The policies for operational and financial risk management and the ISS Group's standards are documented in manuals that are distributed to the operating companies. ISS Management's Corporate Risk Management and Corporate Treasury departments supervise compliance with the standards. The monthly reporting to the Board contains an overview of the status in these areas.

Operational responsibility is delegated to the operating companies under the supervision of regional management. In order to ensure that adequate internal control procedures are maintained locally, controllers employed by ISS Management visit the subsidiaries regularly. The controller visits take place according to a plan for the year approved by the Board and in accordance with the control procedures and standards defined in ISS's controlling manual.

The findings and conclusions of the visits, which include recommendations on how to improve the control environment, are presented in reports addressed to local and regional managements and the external auditors. The controllers perform follow-up to ensure that the recommendations are implemented.

Other key elements of the framework constituting ISS's control environment are:

- Strategy reviews – annual meetings with country managers at which the strategy is discussed and priorities and plans for the coming year are agreed upon
- Business reviews – monthly meetings between regional management and country managers with focus on the current performance and state of the business
- Budgets and financial plans – all countries must prepare budgets and plans for the next financial year in a predefined format. Regional management reviews the budgets and plans with the countries
- Acquisitions – all acquisition proposals must be presented in a predefined model for approval. Board approval is required for large or strategic acquisitions
- Reporting of cash flow forecasts – all countries must report the daily cash flow forecast for the coming month on the third working day of each month. Subsequently, actual figures are continuously monitored by ISS Management's Corporate Treasury department for deviations from the forecasted figures
- Reporting of financial results – all countries must report a full income statement, balance sheet, portfolio analysis etc. on a monthly basis. Any significant variance from budgets must be explained
- Full year forecasts – all countries must update and report their year-end estimates on a quarterly basis

AUDITORS

The Board nominates the external auditors for election pursuant to the shareholder's agreement. The nomination is made after an assessment of the competencies, objectivity and independence of the external auditors and the effectiveness of the audit process.

An independent business relationship with the ISS Group's external auditors is essential for the control environment. As part of the safeguards related to independence, the external auditors may not be used for certain non-audit services for ISS including, but not limited to, preparation of accounting records and financial statements and recruitment for senior management positions.

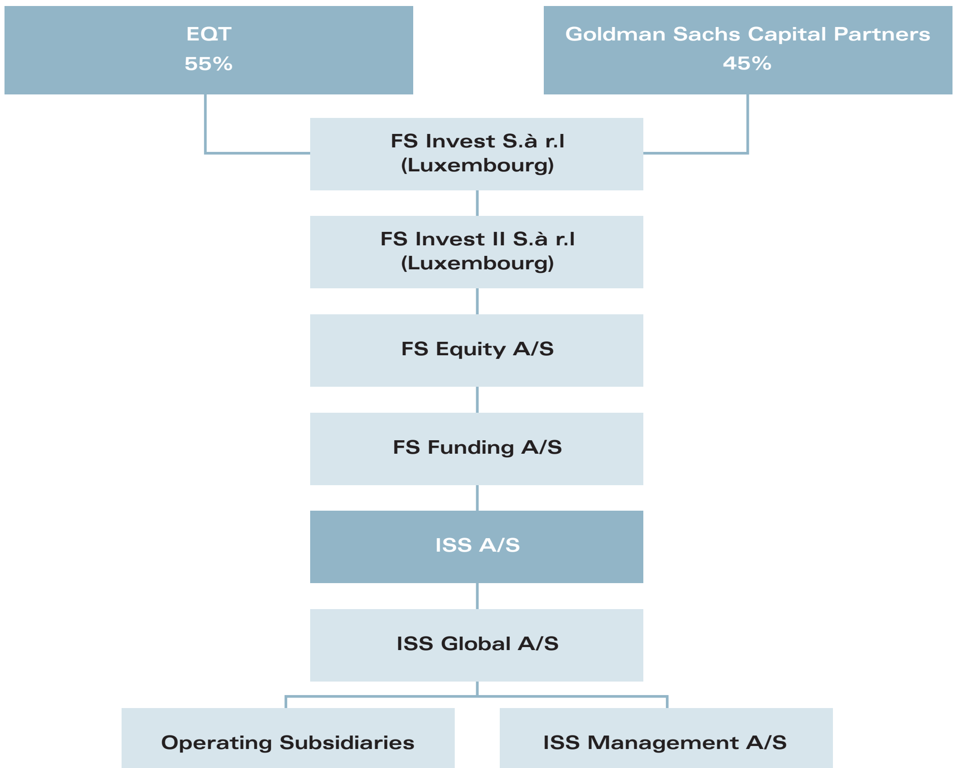
The company collaborates with its external auditors in relation to risk management by exchanging controller reports and audit reports, and by generally sharing relevant knowledge.

As part of the external auditors' reporting to the Board, comments are provided on the ISS Group's procedures and internal control systems. In addition, the external auditors review expense claims of management and report findings, if any, to the Board.

All Board members receive the external auditors' long-form audit reports in connection with the audit of the annual financial statements and any other long-form report.

The Board reviews the Annual Report at a meeting with the external auditors. The potential findings of the external auditors and any major issues that arose during the course of the audit are discussed and key accounting principles and audit judgments are reviewed.

Group Structure



BOARD OF DIRECTORS OF ISS A/S

Leif Östling (1945)
Chairman
Member of the Board since October 26, 2005.

Richard Sharp (1956)
Vice-Chairman
Member of the Board since May 27, 2005.

Ole Andersen (1956)
Member of the Board since May 27, 2005.

Sanjay Patel (1961)
Member of the Board since May 27, 2005.

Jørgen Lindegaard (1948)
Member of the Board since April 6, 2006

Christoph Sander (1962)
Member of the Board since April 6, 2006

Peter Korsholm (1971)
Alternate Director [1)]

Steven Sher (1970)
Alternate Director [1)]

[1)] Alternate Directors are entitled to be present at Board meetings, but shall only be entitled to vote if they are standing-in for a Board member who is unable to attend the meeting.

MANAGEMENT OF ISS A/S

Steen Parsholt (1951)
Managing Director

The Board of Directors and management of ISS A/S are responsible for decisions regarding the overall strategy, financing and other policy matters for the Group.

Note: The ultimate parent company for which consolidated financial statements is prepared is FS Equity A/S.

Operational Management

ISS MANAGEMENT A/S

ISS Management A/S is a direct subsidiary of ISS Global A/S. ISS Management A/S provides operational management services for the subsidiaries of ISS Global A/S and certain administrative services for FS Equity A/S, FS Funding A/S, ISS A/S, and ISS Global A/S.

BOARD OF DIRECTORS OF ISS MANAGEMENT A/S

The membership of ISS Management's Board of Directors is identical to that of the Board of Directors of ISS A/S, except that the Board of Directors of ISS Management includes the following directors elected by its employees: Karina Deacon, Executive Vice President, Head of Corporate Affairs of ISS Management A/S; Flemming Quist, Finance Manager with ISS Management A/S; and Tina Hilligsø, a secretary with ISS Management A/S.

CORPORATE MANAGEMENT TEAM OF ISS MANAGEMENT A/S

The Corporate Management Team of ISS Management A/S consists of the Executive Management Board and certain senior officers responsible for the day-to-day operations in the ISS Group.

CORPORATE MANAGEMENT TEAM OF ISS MANAGEMENT A/S

Executive Management Board of ISS Management A/S

Eric S. Rylberg (1957)
Chief Executive Officer
Head of the Executive Management Board
With ISS since 1997

Allan Aebischer (1954)
Chief Operating Officer
With ISS since 1981

Thorbjørn Graarud (1953)
Group Chief Operating Officer, Northern Europe & Asia
With ISS since 1985

Jeff Olsen Gravenhorst (1962)
Chief Financial Officer
With ISS since 2002

Stig Pastwa (1967)
Chief Operating Officer
With ISS since 1998

Karsten Poulsen (1964)
Chief Treasury Officer
With ISS since 1998

Flemming Schandorff (1948)
Group Chief Operating Officer, Continental Europe & Overseas
With ISS from 1973-1994 and since 2000

Hans John Øiestad (1955)
Chief Operating Officer
With ISS since 1986

Karina Deacon (1969)
Head of Corporate Affairs
With ISS since 1997

Lars Folkmann (1963)
Group Commercial Director
With ISS since 2001

Jacob Götzsche (1967)
Regional Director
With ISS since 1999

Helle Havgaard (1959)
Head of Human Capital
With ISS since 2000

Christian Jakobsen (1970)
Corporate Treasurer
With ISS since 2004

Søren Kongsbak (1957)
Head of Management Participation Program
With ISS since 1997

Jens Ebbe Olesen (1962)
Head of M&A Support
With ISS since 1998

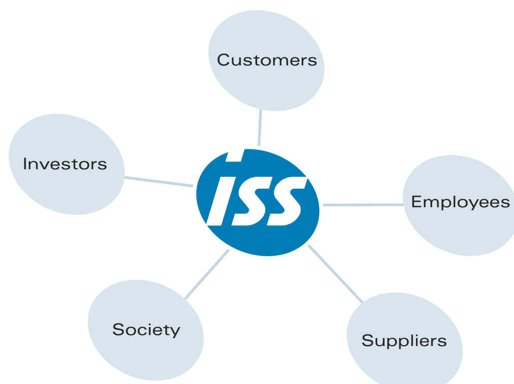
Bjørn Raasteen (1964)
Group General Counsel
With ISS since 1999

Martin Gaarn Thomsen (1970)
Regional Director
With ISS since 1999

Henrik Trepka (1963)
Head of IT
With ISS since 2005

Stakeholder Review

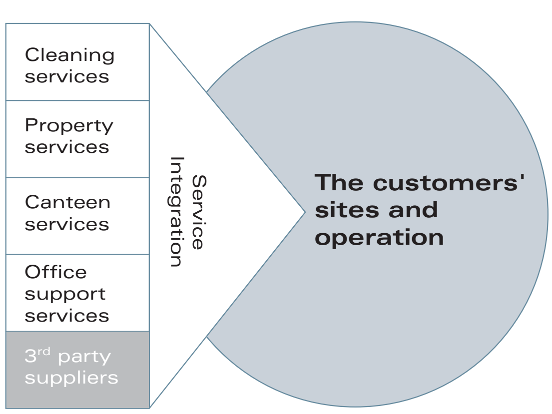
This section explores ISS's relations with five stakeholder groups, which are all contributors to and beneficiaries from the value creation at ISS. For information about risk factors that could have an adverse effect on the interests of stakeholders, please refer to pages 32-47 of this report.



CUSTOMERS

Service integration and extension It is ISS's experience that both owners and users of facilities can benefit from outsourcing support services. Customers can optimize their non-core services by outsourcing and applying ISS's core business model. The potential cost savings generally depend on whether customers outsource single services, choose a facility management model or outsource a range of services to a supplier of integrated

The customer interface in facility services



facility services solutions. The more services and the higher the level of service integration, the greater the potential savings. Therefore, ISS's ability to integrate and deliver a broad range of support services to customers through a single point of contact provides a competitive advantage. As part of the service solution, ISS can manage the entire service delivery and ensure staff flexibility, quality of service and reliability in a cost efficient manner, whilst customers can direct their resources towards developing and managing their core business.

With the launch of ISS's new strategy plan, Route 101 in 2005, the focus on service integration skills was further increased. Route 101 aims for a continuous transformation of ISS towards an integrated facility services (IFS) company – with revenue of DKK 101 billion.

In 2005, country organizations were reshaped to support Route 101, new services were developed or acquired and several country organizations focused specifically on customer retention. In cleaning services, ISS sustained the development of its washroom, dust control (rental of mats), and indoor air quality businesses. In property services, businesses were acquired in markets such as Austria, Finland, France, Norway and Switzerland. Pest control businesses were acquired in several operations in Europe and Asia. Catering competencies were added in Belgium, Denmark, Malaysia, Norway and Singapore. Other service development projects were undertaken in several countries.

Contracts ISS's customer base is diversified across industries and geographies, and includes a mix of public sector and business-to-business customers. Annualized revenue derived from the ten largest contracts in 2005 amounted to less than 5% of Group revenue.

ISS Denmark secures largest IFS Contract
In November 2005, ISS Facility Services A/S in Denmark won its largest IFS contract to date. A five-year agreement was concluded with the Danish telecom company, TDC with an annual value counted in three-digit million Danish Kroner.

"This contract is the largest we have won so far within integrated facility services, where ISS supplies all the service functions in connection with the daily management of a customer's buildings. TDC is one of Denmark's largest companies and an extremely interesting outsourcing partner. We are very much looking forward to this new task," said Country Manager Allan Aebischer, ISS Facility Services A/S, when the contract was announced.

The agreement covers a series of services related to the operation of properties at TDC. These include reception, cleaning, catering, janitor services, and night watchmen. The contract involves approximately 500 employees, and ISS has also taken over management responsibility for 85 TDC employees.

"ISS provides the employees with a better job guarantee than we would have been able to give them. We are outsourcing the service area to a provider, who has this area as its core competence. The facility management area is not one of TDC's strategic core business areas. By handling the entire area and thus combining employee competencies, ISS can exploit synergies and this results in cost savings for TDC. The agreement with ISS is an important part of our strategy of achieving cost savings while at the same time increasing our flexibility," says Jørgen Jakobsen, Senior Vice President, Corporate Procurement, TDC.

Quality Customer relations rely on ISS's ability to deliver the quality agreed upon. For larger contracts, the quality of the service delivery is often measured against defined quality benchmarks stipulated in Service Level Agreements (SLA).

Most ISS operations have adopted a formalized quality approach. Generally, ISS uses ISO certified quality management systems, and a number of countries have implemented total quality and Business Excellence models. During 2005, ISS won several awards for its commitment to quality, including Golden Service awards, supplier awards, and Building & Services awards.

Knowledge sharing Knowledge sharing with customers is part of the Group's partnership approach. ISS is continuously developing its professional advisory services in areas such as project and workplace management, indoor climate control, building logistics and environmental services/waste management.

During 2005, ISS increased the use of IT systems to support knowledge sharing with employees and customers. The use of ISS's international intranet, Business Insight, continued to spread. The ISS Integrated Facility Services Development Centre strengthened the internal IFS knowledge sharing by establishing an IFS portal. Here employees can find information about the IFS concept, tools supporting the local IFS efforts and best practices.

Usage of the ISS Collaboration Extranet is continuously increasing among customers of ISS. This enables ISS and its customers to communicate through a single point of access and exchange documents, contract information and services for a coordinated cross-border service delivery.

International sales In 2005, international sales support was strengthened with the establishment of a new Group function, "IFS Implementation & Corporate Clients". This function supports countries in developing selected IFS customers and competencies within sales, calculation, transition and operation of IFS contracts. The function operates the IFS Development Center and will in addition to this centre establish Group Competence Centers within the "IFS House"; Cleaning, Office Support, Property Services and Catering. This function will also manage and develop existing corporate cross-border clients, such as Nordea and CSC.

EMPLOYEES

During 2005 the number of ISS employees increased by approximately 37,000, of which the majority were employees joining the Group through acquisitions. At the end of 2005, ISS employed more than 310,000 employees in Europe, Asia, Australasia and Latin America. The new Group strategy, Route 101, confirms ISS's ambition to become the premier employer in the facility services industry.

Building new competencies in integrated facility services (IFS)
ISS operations have expertise in adding new service areas to their business – either through acquisitions or concept development. However, developing a seamless, integrated, service offering across the service areas is a more novel challenge. ISS's strategy plan, Route101, concludes that *building a truly comprehensive IFS solution is the main challenge for all of us*.

The IFS Academy was established in April 2005 with the objective of educating IFS experts. The Academy is part of the ISS University and closely linked to the Integrated Facility Services Development Centre.

The Academy offers six programs covering the major steps in the provision of integrated contracts – all the way from planning the initial sales visit to operating the IFS contract.

The programs target:

- *Sales directors* and others, who will manage or partake in the lengthy, complex selling process, which is IFS
- *Planners* who will have to scope and price an IFS solution based on current best practices and calculated service synergies
- *Transition/change managers* who will design the IFS solution, mobilize the staff involved and ensure hand-over to the contract manager
- *Contract – and other key account managers*, who will run the actual contracts and liaise with the clients and users
- *Facility management IT super users*, who will set up and configure the *eFMS* system that provides the backbone for an IFS solution

Since April 2005 the IFS Academy has conducted six programs at the ISS University in Copenhagen and three in Bangkok, tailored to the countries in Asia-Pacific. More than 120 managers from 26 countries have participated in an IFS Academy program. The programs offer a blend of training sessions and real implementation, which have been very well received. Based on the positive experiences, a new IFS Master Class for senior executives is in the pipeline at the Academy, as well as a reinforced rollout of programs.

Human Capital The human capital strategy for the ISS Group is aligned with Route 101 as it sets out to motivate, educate and reward employees at all levels. In support of this strategy, Human Resource executives from across the Group worked together during the year to compile best practices in the areas of people strategy, talent management, recruitment and retention. Going forward, these practices will not only serve as inspiration, but also feed into a definition of common minimum standards in people management. Standards which will be adopted by existing ISS subsidiaries and newly acquired businesses alike.

Training remains a cornerstone in the Human Capital strategy. Resources are invested in staff and management development – ranging from basic skills training through middle management programs to a full corporate MBA. The philosophy is to offer tailored training at all functional levels to enhance employee competencies and upward mobility of staff. Much attention is devoted to the development of the first management layer e.g. team leaders, supervisors and contract managers, who have the immediate staff and customer interface. Most training is conducted at ISS academies and training facilities in national and local operations.

The corporate ISS University put IFS at the top of its agenda in 2005. Six new programs were developed to transfer knowledge and proven IFS service concepts and tools across the Group. As in previous years, the University program portfolio consisted of seminars developed entirely at ISS University and others inspired by or designed in cooperation with suppliers such as IMD, Henley, INSEAD, Ashridge and DDI. During the year, approximately 600 senior managers from the entire Group attended a total of 45 workshops and programs at ISS University.

In 2005 ISS had its first Strategic Summer School. A tailored one-week program held at the Stanford Graduate School of Business for country managers with responsibility for more than 5,000 employees or total revenue of USD 101 million.

The growth ambitions in Route 101 have increased the emphasis on talent management. ISS is working to expand the scope of its current performance management system. Appraisals will be more closely tied to personal development plans and goals, and successors, talents and other high potential candidates will become more visible in the system. A new IT system is underway to support these processes. In addition, the system will create a more transparent international job market within ISS. Internal cross-border recruitments are proven means of enhancing management competencies and facilitating internal knowledge sharing between countries.

Employee loyalty The service industry has relatively high levels of employee turnover, as the industry is often considered for short-term or secondary employment. ISS pursues a range of strategies to retain its employees by offering more full-time and daytime work, multi-task jobs, teamwork, skills development, career opportunities, leisure activities etc. In 2005, the share of full-time employees (working 25 hours or more per week) rose to 61%. This indicator is significant, as full-time employees on average develop stronger ties with ISS. The distribution of employee seniority (in years) provides another perspective on employee loyalty at ISS. In 2005, approximately 66% of the Group's employees had been with ISS for more than one year.

Managing attendance Health and safety is a Group-wide focus area. Every ISS country has a strategic business incentive to improve their health and safety to retain and recruit employees, comply with local laws and regulations and minimize insurance expenses. As a result, several local health and safety initiatives have been implemented, e.g. a number of countries have implemented projects to minimize sick leave and increase the well-being of employees.

Equal opportunities ISS rewards its people solely on the basis of merits. When deciding on recruitment, development and promotion ISS operations focus on individual capabilities and qualifications of a candidate and under no circumstances on the person's gender, age, ethnic origin, religion, political views etc. Thanks to the corporate culture and aided by language courses and adapted training materials, ISS is today an employer of choice for many immigrants and ethnic minorities. In countries such as Belgium, Denmark, France, Norway, Sweden and the United Kingdom, ISS is among the largest employers of ethnic minorities.

European works council Employee and trade union relations are a natural part of a people-centered business like ISS. The corporate policy of involvement

People indicators	2005	2004	2003
Number of employees	310,800	273,500	245,000
Share of employees working full-time	61%	57%	55%
Staff turnover blue collar workers	52%	50%	50%
Staff turnover white collar workers	23%	24%	19%
Total staff turnover	50%	49%	49%
Share of employees with less than one year of seniority	34%	31%	31%
Share of employees with one to five years of seniority	38%	39%	42%
Share of employees with more than five years of seniority	28%	30%	27%

and dialogue is applied locally in the country operations. Established in 1995, the European Works Council (EWC) is a forum for dialogue between ISS executives and employee representatives from across Europe. A total of 22 representatives from 17 countries took part in the EWC dialogue in 2005. The rollout of integrated facility services and its effects on wages and general working conditions were the key issues of debate. The new EU service directive was another key topic for discussion.

SUPPLIERS

Supplier relations are an integral part of ISS's service delivery. At Group level as well as locally, ISS is working to reduce the overall number of suppliers and establish strategic supplier partnerships in key areas. Working with few preferred suppliers has a positive impact on ISS's cost efficiency and other operational targets. In return, the strategy offers documented growth opportunities for the selected suppliers.

Corporate Procurement In 2005, Corporate Procurement focused on further increasing the co-operation with the established strategic international suppliers. This was reflected through increased co-operation in all countries, and in addition through the rollout of existing agreements to four new countries.

In 2005, the three largest strategic international suppliers all experienced increases of more than 10% in their business with ISS. No strategic suppliers were replaced during the year. Additional strategic suppliers were added within the washroom and dust control businesses in order to support the international development of these business areas.

Cleaning tools and materials In order to enhance focus on efficient and environmentally safe methods for the cleaning services, an international agreement was made with JohnsonDiversey adding a selected range of cleaning tools to the already existing international agreement on chemicals.

Corporate work wear The work wear program was expanded in 2005. The program now covers 25 countries, and purchases under the program reached 500,000 items for the full year. The program thereby covers half of the Group's total consumption of work wear. Additional work wear articles will be added to the range as ISS enters new business areas and countries.

ISS Spain and JohnsonDiversey implement framework agreement

ISS has entered into a strategic international framework agreement with JohnsonDiversey (JD), an international supplier of cleaning tools and materials.

One thing is to sign an international agreement another is to implement it locally. Before implementing the agreement in Spain, ISS Spain and JD faced several challenges. The acquisitive growth in the Spanish market led to a fragmented supply of cleaning materials to ISS Spain. To ensure a successful implementation of the agreement ISS Spain needed to anchor an understanding of the benefits from strategic supplier partnerships throughout the organization, while JD was challenged with setting up a local customer service organization to support the requirements of ISS.

"During 2005, we overcame the obstacles together with JD through a number of initiatives, resulting in an increase of 60% in the consumption of JD products compared to last year. This figure is a result of increased mutual confidence between ISS Spain and the JD team creating a new team spirit between us," says Montse Empez, Procurement Manager of ISS Spain.

ISS Spain has focused on reducing its range of cleaning materials from more than 2,000 products to 300, most of them from JD, which has lead to a reduction of administrative costs and improved health and safety. A new implementation committee between ISS and JD was established. In each region a person from JD was appointed to help ISS employees in any queries, resulting in increased confidence between the two parties. Employee training in proper handling and usage of JD products was followed up by a bi-monthly newsletter. And finally a new cleaning method was developed between ISS and JD, further increasing the consumption of JD products.

Fleet management In 2004, ISS signed a fleet management program with two global car manufacturers and one global leasing company. During 2005, the program was rolled out in 14 European countries covering more than 15,000 vehicles corresponding to approximately 90% of the entire ISS fleet. In 2006, the roll out of the fleet management program will continue with the aim to eventually cover all vehicles of ISS.

SOCIETY

Sustainability Corporate sustainability is key for ISS in maintaining firm, trust-based relations with its various stakeholders, and in reaping operational benefits. For ISS, sustainability is part of day-to-day operations, because economic, social and environmental concerns are interconnected at ISS.

With more than 310,000 employees in 45 countries ISS exerts a considerable influence on the life of many people in various societies around the world. As a large company and employer in society, ISS takes its responsibility very seriously. Therefore, ISS works continuously to ensure that employees and business partners are treated fairly, that the environmental impacts of ISS's operations are reduced, and that ISS acts as a good corporate citizen in the communities in which it operates. ISS aims at setting high social, environmental and ethical standards in all markets and demonstrating leadership within the facility services industry.

In 2003, the Board of Directors adopted an ISS Code of Conduct covering the areas of employee conduct, anti-corruption and bribery, compliance with competition rules, business partner relations, workplace standards and corporate responsibility. Since then ISS has communicated and enforced these standards Group-wide.

When acquiring new companies, entering new markets and joint venture opportunities ISS encourages that business will be conducted in compliance with the ISS Code of Conduct.

United Nations Global Compact ISS has been a signatory and supporter of the Global Compact since its inception in 1999. As a member, ISS endeavors to comply with the ten Global Compact principles and publishes examples of how this implementation is undertaken. As a company of Nordic origin, ISS participates in a network for Nordic companies with membership of the Global Compact – The Global Compact Nordic Network. Twice a year ISS participates in meetings of the network to share knowledge and experiences with other members of the Global Compact.

As called for by the Global Compact, the paragraph below describes selected implementation measures taken in 2005 within the areas of human rights, labor rights, environmental protection and anti-corruption. ISS also prepares an annual Communication on Progress to the Global Compact to document progress in implementing the ten principles.

Human Rights *The Global Compact calls for companies to support and protect international human rights and to ensure that they are not complicit in abuse.*

The ISS Code of Conduct remains the key operational framework for the protection of human rights within ISS. In 2005, the code of conduct was updated and going forward, the procedure for raising concerns will be strengthened by appointing a local ombudsman in each country where ISS operates. When the procedure is implemented, employees will be able to report breaches of the ISS Code of Conduct in confidence to the local ombudsman if they cannot report it through the normal organizational reporting lines.

The updated ISS Code of Conduct will be distributed throughout the Group and translated into local languages. ISS's commitment to human rights protection has been communicated to suppliers, major customers and employees by means of leaflets, meetings, management training sessions, employee magazines etc. Responsibility for compliance rests with local country managers.

ISS joined the Amnesty Business Forum in 2002 to discuss human rights protection with Amnesty International Denmark and a group of companies headquartered in Denmark. In 2005, ISS participated in network activities and maintained a dialogue with Amnesty International regarding human rights issues.

Labor Rights *The Global Compact calls for companies to uphold the freedom of association, recognition of collective bargaining, elimination of forced labor, child labor and discrimination at work.*

ISS recognizes labor rights and maintains close ties and an open dialogue with unions. ISS has signed a letter of agreement with Union Network International (UNI) committing itself to 12 fundamental principles in the workplace. The principles are based on ILO conventions and covers the following areas: Forced/bonded labor, discrimination, child labor, freedom of association, legal minimum wages, working hours, health and safety, harassment, training, environmental protection and fair competition. UNI in turn has pledged to address and disclose companies, which undermine fundamental standards in the service industry.

ISS uses no forced, compulsory or child labor and tolerates no form of discrimination. ISS takes an active role in employing vulnerable groups. As a large employer, ISS has both the capability and the motivation to conduct training and reintegration programs for immigrants, long-term unemployed or other groups with difficult access to the labor market – often in partnership with local authorities. ISS has especially taken initiatives in this field in Austria, Belgium, Denmark, France, Norway, Portugal, Slovakia and Spain. Positions are found both in administrative and service operative functions.

Environmental Protection *The Global Compact calls for companies to support a precautionary approach to environmental challenges, promote environmental responsibility and environmentally friendly technologies.*

Environmental protection is a key component in ISS's overall approach to sustainable development. The corporate environmental policy provides a Group-wide framework for local environmental policies and initiatives and spells out ISS's key environmental objectives:

- Minimize emissions and effluents (primarily arising from transport and use of chemicals in cleaning)
- Minimize the use of energy and water
- Reduce, manage and recycle waste
- Use safe products and materials

On the basis of the corporate environmental policy, ISS's country organizations implement local environmental policies and management systems to meet corporate and local objectives. In most countries, the environmental policies and systems are already in place and many of them are certified to the ISO 14001 standard. In addition, environmental responsibility is promoted through staff training and awareness programs.

As mentioned above, ISS has signed a direct supplier deal with two international car manu-

Ethical Dilemma Training
Most instances of unethical conduct are fairly easy to set straight when disclosed. However, real ethical dilemmas do arise – typically when business interests conflict with ethical standards – and they are considerably harder to deal with. Therefore at ISS University ethical dilemma training is carried out for ISS managers. Here are some examples of possible dilemmas.

Hours and Wages
A manager starts working at a recently acquired business unit in a low-pay market. On arrival, the manager finds that the employees work much longer hours than is allowed by local law. The manager demands regular working hours. Many employees quit, because they can no longer support their families when working less hours. To retain the employees the manager is in favor of raising the minimum wage level. This step would be in line with international human rights calling for remuneration, which ensures a worker and his/her family a dignified life. However, there is no industry-wide support for the initiative. The dilemma is that the manager wants to remain competitive in the market, and at the same time raise social standards for the employees.

Equal Opportunities
ISS has a diverse staff composition. In spite of an open and non-discriminating workplace, the diversity at service operative level is not yet reflected at higher management levels. To reflect the workforce and the society in general the Human Resource manager would like more women and immigrants in management positions, but at the moment the supply of qualified candidates does not support this objective. The dilemma is whether to develop career programs offering preferential treatment to selected "groups" or keep selecting the best performing individual for a given assignment or position.

Environmental Management
ISS has made a commitment to environmental protection. Among other things, this includes the management of waste, water, power and chemicals. In a country with more than 5,000 customers and an even greater number of customer sites, tracking and managing environmental effects at all sites will pose severe problems. The dilemma is that in some cases the benefit of large-scale environmental systems may not merit the effort and costs involved.

Anti-corruption and Bribery
When investing in a company a large number of official documents have to be produced within a short period of time. In some cases it takes several months to get the documents through the authorities. The dilemma is that some places it is common practice to order documents to be drawn up by the authorities in a short time for a reasonable amount of money instead of waiting several months before the business can start running.

facturers. With this partnership ISS aims to increase fuel efficiency by raising the share of diesel fuelled cars. In 2005, diesel fuelled cars formed approximately 75% of the entire ISS fleet and work in this area will continue in 2006. So will the work to reduce the environmental impact from the use of chemicals through the ISS Q3E cleaning standard offering savings on chemicals and water usage. To enhance focus on efficient and environmentally safe methods ISS added in 2005 a selected range of cleaning tools to the existing international agreement on chemicals with JohnsonDiversey.

Anti-corruption *The Global Compact calls for companies to work against all forms of corruption, including extortion and bribery.*

ISS welcomes the tenth Global Compact principle on anti-corruption. The ISS Code of Conduct expresses a clear commitment to combating all forms of corruptive practice. Through the ISS Code of Conduct, the anti-corruption position is communicated to the entire Group.

In 2005, the ISS University hosted six training sessions on sustainability for a number of ISS managers. At these sessions the ISS approach to sustainability, including anti-corruption was presented and dilemma training of these issues was conducted.

Also in 2005, ISS entered a network of anti-corruption for companies headquartered in Denmark meeting twice a year to share knowledge on how to combat corruption and bribery.

INVESTORS

Shareholders On January 1, 2005, ISS's share capital amounted to DKK 946.7 million consisting of 47,335,000 shares of DKK 20 nominal value each. The share price was DKK 305.5 per share. ISS has one class of shares and no shares carry special rights. The shares are freely transferable, negotiable instruments.

On March 29, 2005, FS Funding A/S ("FS Funding"), a newly incorporated Danish company indirectly owned by funds advised by EQT Partners and Goldman Sachs Capital Partners, launched a voluntary public tender offer to acquire the shares of ISS A/S. The offer price was DKK 470 per share, constituting a premium of 31% compared to the last quoted share price prior to announcement of the offer and 54% higher than the share price at year-end 2004. The offer price was subsequently reduced to DKK 465 per share following ISS's declaration on April 13, 2005, to pay a dividend of DKK 5 per share. On May 3, 2005, the voluntary offer expired and on May 9, 2005, FS Funding announced that it had received tenders representing 91.55% of ISS's outstanding share capital.

The provisions of the Danish Securities Act require that any acquirer of a majority interest in a Danish listed company shall institute a mandatory tender offer for the shares that it has not already acquired, in this case during the voluntary tender offer period. Accordingly, FS Funding commenced a mandatory tender offer for the remaining ISS shares, which expired on June 10, 2005. Upon expiration of this mandatory tender offer FS Funding held 98.30% of ISS's shares. On June 14, 2005 ISS announced its decision to request for de-listing ISS A/S' shares from the Copenhagen Stock Exchange. The de-listing was effective as of June 21, 2005.

On July 26, 2005, the remaining outstanding shares of ISS were acquired by FS Funding through a compulsory acquisition procedure regulated by the Danish Public Companies Act.

Exercise of warrants Following the change of ownership, 367,317 warrants were exercised. Warrant holders subscribed for 367,317 new ISS A/S shares at exercise prices ranging from DKK 247 to DKK 440 per share with an average subscription price of DKK 354 per share. The exercise of warrants yielded gross proceeds DKK 130 million. The shares were issued on October 17, 2005. The new shares were subsequently acquired by FS Funding at a price of DKK 465 per share. On December 31, 2005, the share capital of ISS A/S amounted to DKK 954.0 million consisting of 47,702,317 shares.

Bonds ISS Global A/S, a wholly owned subsidiary of ISS A/S, listed a Euro Medium Term Note (EMTN) program in August 2003. Under this program, ISS Global A/S has issued bonds in two tranches; EUR 850 million maturing in September 2010 and EUR 500 million maturing in December 2014. In response to the change of capital structure following the change of ownership, Standard & Poor's decided to change its rating of ISS Global's EMTN program and the issued bonds from BBB+ to B-. Standard & Poor's have also assigned a B+ long term credit rating to the issuer, ISS Global A/S, and its parent companies ISS A/S and FS Funding.

ISS Global A/S bonds

Issuer	ISS Global A/S
Bloomberg	ISS DC
S&P rating	B-
Listing	Luxembourg
Bond issue, September 2003	
Issue amount	EUR 850 million
Maturity date	September 18, 2010
Coupon	4.75%
ISIN securities code	XS0176317054
Reuters	DK017631705=
Lead managers	HSBC, Nordea, Société Generale
Bond issue, November 2004	
Issue amount	EUR 500 million
Maturity date	December 8, 2014
Coupon	4.50%
ISIN securities code	XS0206714247
Reuters	DK020671424=
Lead managers	Deutsche Bank, Nordea, Société Generale

Risk Factors

ISS A/S ("ISS" or the "Group") strives to counter and reduce the risks, which the Group is able to impact. However, ISS wishes to emphasize that any investment in shares or bonds will be subject to risk. Such factors as developments in the financial markets, in the Group's operating performance etc. could cause an investment to be loss making. An investor could lose all or part of his or her investment. In addition to the financial market risk, ISS's risk profile reflects both the Group's day-to-day operations and its continued expansion. Other stakeholders having relations with ISS should also consider that the risks of ISS could adversely impact their interests. Some of the risk factors, which may adversely affect the Group's future growth, activities, financial position and results, are described below. This is not an exhaustive description of the risk factors to which the Group or an investment in ISS's shares or bonds is subject, nor are they listed in any order of priority.

Demand for ISS's services is subject to changes in economic conditions in its markets, as well as outsourcing trends and other factors beyond ISS's control ISS believes that the potential growth in demand for its services generally correlates with economic conditions, including growth in gross domestic product, in the countries in which it operates. Although the facility services industry is normally considered to be less sensitive to economic cycles than a number of other industries, macroeconomic cyclicality – both weak and strong economic activity – presents a challenge for ISS. Periods of recession or deflation may have an adverse impact on prices and on the demand for services, particularly if customers downsize their businesses or reduce their demand for services. If ISS is not able to reduce its costs in line with price declines, then its margins will be reduced.

In addition, in periods of rapid economic growth, ISS may encounter problems in recruiting qualified employees or generally experience increasing staff costs. Although ISS generally seeks to include inflation adjustment clauses in its contracts in order to pass on wage increases to its customers, it may not be able to effectively pass on these increases or manage its costs, in which case its margins would be reduced. As a result of these factors, fluctuations in economic conditions may have a material adverse effect on ISS's business, results of operations and financial condition.

In addition, growth in demand for facility services is also influenced by general outsourcing trends. The development of outsourced facility services is expected to be more volatile than the facility services market as a whole as outsourced facility services may be affected by political decisions, public opinion, positive and negative experiences with outsourcing, demand by public institutions and individual users, as well as media coverage of isolated events. These factors may dampen growth in outsourcing, cause contracts to be discontinued or reduce ISS's ability to achieve satisfactory growth rates in the future.

ISS's business is subject to governmental regulation, which may constrain its operations, and its compliance costs may increase in the future ISS's operations are subject to a variety of laws and regulations. In particular, because of ISS's large work force, laws and regulations relating to labor, employment and immigration affect ISS's operations. ISS's failure to comply with applicable regulations could result in substantial fines, claims relating to violations of social and working environment legislation or revocation of licenses. In addition, changes in such laws and regulations may constrain ISS's ability to provide services to customers or increase the costs of providing such services. For instance, under certain circumstances current EU law allows ISS, in the event that it loses a customer contract, to transfer employees working under the contract to the new provider of the services, and any restriction on ISS's ability to transfer employees under such circumstances could substantially increase ISS's employment costs and restrict its operational flexibility. Changes which result in facility services companies employing a greater proportion of workers from traditionally lower wage countries could reduce prices for facility services and negatively affect ISS's results. In addition, changes in tax legislation may cause ISS to incur higher costs or reduce ISS's competitiveness relative to in-house service providers. For example, tax regulations in certain countries may discourage the outsourcing of facility services. In some countries, tax laws are structured such that if a public sector entity outsources its facility services, it cannot deduct value added tax, or VAT.

New technology, the implementation of new work processes, services, detergents, tools and machinery may have unforeseen effects on the working conditions of ISS's employees. ISS seeks to improve working conditions, including through the use of detergents, materials and equipment that ISS considers to be environmentally friendly, as well as through health and safety training programs and monitoring. However, there can be no assurance that ISS will not be subject to claims relating to employee working conditions, and any such claims, or increased costs necessitated by such claims or regulatory changes, could have a material adverse effect on ISS's business, results of operations and financial condition.

ISS faces strong competition The facility services market is fragmented and has relatively low barriers to entry, particularly with respect to general cleaning services. In addition, in certain markets competitors may resort to illegal or questionable labor practices in order to reduce their wage costs, including the violation of minimum wage laws or the employment of workers imported from less developed countries under conditions that ISS would deem unethical or exploitative. These practices may lead to increased price competition, which could have a material adverse impact on ISS. In addition to competition from other providers of outsourced facility services, ISS also faces competition from in-house providers.

Although ISS seeks to differentiate its services from its competitors by focusing on integrated facility services solutions tailored to individual customers in selected market segments, it may not be successful in reducing the effects of competition. Competition may intensify if single service providers begin to offer integrated facility services. In addition, new competitors and changes in the competitive environment may increase competitive pressures or reduce market prices for facility services, which could decrease ISS's revenue or margins. A significant loss of customers or sustained reduction in revenue or margins could have a material adverse effect on ISS's business, results of operations and financial condition.

ISS could be harmed if a significant number of customers terminate their service contracts prior to the end of the contractual term or select another provider following expiration of their contracts ISS performs the majority of its work for customers under contracts with a stated term and, in some cases, with termination clauses permitting the customer to cancel the contract, at the customer's discretion, following the expiration of an agreed notice period. There can be no assurance that ISS's customers will not exercise their rights to terminate their contracts prior to expiration or that ISS will be successful in negotiating new contracts with customers as such contracts expire. In addition, contract cancellations or dissatisfaction with ISS's services may damage ISS's reputation and make it more difficult for ISS to obtain similar contracts with other customers.

ISS's public sector contracts may be affected by political and administrative decisions In many countries, the public sector is an important customer segment for ISS. ISS's public sector business may be affected by political and administrative decisions concerning levels of public spending. Moreover, decisions to decrease public spending may result in the termination or downscaling of public sector contracts, which could have a material adverse effect on ISS's business, results of operations and financial condition.

ISS is subject to a number of risks associated with its facility services contracts ISS is subject to a number of risks associated with its facility services contracts, in particular its larger and longer-term contracts. The profitability of these contracts will generally depend upon ISS's ability to successfully calculate prices, control costs and manage day-to-day operations under those contracts. Higher than anticipated costs associated with these contracts or the failure to adequately manage these contracts may result in the loss of customers or reduced margins or even losses under the contracts.

In addition, ISS may enter into agreements with subcontractors for the provision of services under its customer contracts. Reliance on subcontractors reduces ISS's ability to directly control both its workforce and the quality of services provided. Accordingly, ISS is exposed to risks relating to managing subcontractors and the risk that these subcontractors may fail to meet agreed quality benchmarks under the contract or to generally comply with applicable legislative or regulatory requirements. Furthermore, subcontractors may have inadequate insurance coverage or inadequate financial resources to honor claims resulting from damages or losses inflicted on the customer by such subcontractors. Any failure of subcontractors to meet their contractual obligations could harm ISS's reputation, as well as result in customer losses and financial liabilities, any of which could have a material adverse effect on ISS's business, results of operations and financial condition.

ISS faces additional risks with respect to its performance under integrated facility services contracts. Generally, these contracts place greater demands on ISS due to their scope and complexity as compared to single service contracts, and these demands may increase to the extent that the contract involves newly introduced facility services. Although ISS seeks to minimize the difficulties associated with its integrated facility services contracts by obtaining a clear understanding of the customer's expectations, including defined success criteria, it may not be able to eliminate these difficulties altogether. ISS's inability to successfully manage its integrated facility services contracts could limit its ability to provide integrated facility services and may have a material adverse effect on ISS's business, results of operations and financial condition.

In the United Kingdom, ISS has entered into a number of Private Finance Initiative (PFI) contracts. Although these contracts do not comprise a material portion of ISS's business, they subject ISS to unique risks in that ISS has been required under some of the contracts to make an equity investment, together with a third party investor, in the operating company that entered into the contract. Under some of the PFI contracts, ISS has agreed that, in the event that the entity is unable to pay for services provided by ISS under the PFI contracts, then ISS will convert its receivables from the entity into a loan. A few of these contracts also have terms of up to 30 years. Under certain of these agreements, ISS is required to give indemnities, which do not in all cases exclude consequential losses, and ISS may be liable for amounts in excess of its service fees under the agreements. As of December 31, 2005, the value of ISS's equity stakes under such PFI contracts was approximately DKK 48 million, and none have been converted into bank loans.

If ISS fails to manage its growth and integrate acquired businesses successfully, its business will be adversely affected ISS's business has grown significantly in recent years, primarily through more than 400 acquisitions since the beginning of 2000. ISS intends to continue to develop and expand its business, including through additional acquisitions. These acquisitions, in addition to ISS's organic growth, may strain ISS's management and financial resources. Among the risks associated with ISS's acquisition strategy, which could materially adversely affect ISS's business, results of operations and financial condition, are the following:

- ISS may incur substantial costs, delays or other operational or financial problems in integrating acquired businesses;
- acquisitions may divert management's attention from the operation of existing businesses;
- ISS may not be able to retain key personnel or customer contracts of acquired businesses; and
- ISS may encounter unanticipated events, circumstances or legal liabilities related to the acquired businesses.

In addition, there can be no assurance that, following integration into ISS, an acquired operation will be able to maintain its customer base in line with expectations or generate expected margins or cash flows. Although ISS analyzes each target, these assessments are subject to a number of assumptions concerning profitability, growth, interest rates and company valuations. There can be no assurance that ISS's assessment of acquisition candidates will prove to be correct as other factors, not accounted for in the analyses, may cause actual developments to differ significantly from ISS's expectations. Furthermore, acquisitions of companies expose ISS to the risk of unforeseen obligations with respect to employees, customers, suppliers and subcontractors of acquired businesses, to public authorities or to other parties. Such obligations may have a material adverse effect on ISS's business, results of operations or financial condition.

Adverse changes in ISS's financial position, operating results or cash flows could impact its credit ratings, loan covenants and ability to finance its business Credit rating agencies and debt investors traditionally use a range of key financial figures, such as operating margin, cash flow from operating activities, cash conversion ratio, results of operations, asset valuations (including any goodwill impairment), interest coverage and debt ratios, to evaluate ISS's financial position and performance. Macroeconomic trends, as well as changes in legislation, impairment of assets, outsourcing and leasing decisions, staffing shortages and other operational issues could cause ISS's key financial figures to fluctuate substantially. An adverse change in these figures, and any resulting change in its credit ratings, may affect ISS's ability to finance its operations, development and growth. ISS evaluates its capital structure regularly with the aim to manage the development in its key financial figures to comply with the covenants specified in its loan agreements. For this purpose, ISS has established a set of financial management tools that support the evaluation of its future capital expenditure requirements. However, if ISS is unsuccessful in maintaining its key financial figures at a satisfactory level, any resulting adverse change in its credit ratings or failure to comply with loan covenants could have a material adverse effect on ISS's business, liquidity, results of operations or financial condition. ISS may also be precluded from borrowing under ISS's lines of credit in those circumstances.

Fluctuations in foreign currency exchange rates and interest rates may affect ISS's results of operations Although ISS has operations in 45 countries, currency rate fluctuations generally do not have an immediate impact on its business because the revenue and costs of ISS's subsidiaries are usually denominated in the same currency. However, fluctuations in exchange rates may affect ISS to the extent that its interest payments with respect to borrowings are not denominated in the same currencies as ISS's revenue. In addition, currency movements may materially affect the economic environment in which ISS's subsidiaries operate, which could have a material adverse effect on ISS's business, results of operations and financial condition. Further, currency fluctuations may have a significant affect on royalties, dividends and service fees which are paid to ISS in local currency by ISS's subsidiaries. Currency fluctuations may also have a significant impact on the year-on-year growth of revenue, earnings and cash flow when measured in ISS's reporting currency, Danish kroner. Currency fluctuations may cause actual growth rates to fall short of management's forecasts and expectations.

ISS may also be affected by changes in interest rates. Increases in interest rates increase ISS's interest expenses relating to variable rate indebtedness and increase the costs of refinancing existing indebtedness and of issuing new debt. In addition, increases in interest rates increase the cost of acquisitions, thereby limiting ISS's ability to grow through acquisitions on a cost effective basis, as well as limiting ISS's ability to implement its growth strategy. Accordingly, higher interest rates could adversely affect cash flow and ISS's ability to service its debt. Although ISS monitors and assesses trends in interest rates on an ongoing basis, there can be no assurance that ISS will be successful in responding to interest rate variations.

ISS's international operations and decentralized organizational structure may subject ISS to additional risks ISS currently operates in 45 countries, and more than 90% of its total revenue is generated outside Denmark. Because of the international scope of its activities, ISS is subject to a number of risks and challenges, many of which are beyond its control. These include the management of a decentralized international business and the complexities of complying with the legislative and regulatory requirements, including tax rules and social security legislation, of many different jurisdictions. For example, where local tax rules are complex or their applicability is uncertain, compliance with such rules may lead to unforeseen tax consequences. In addition, structuring decisions and local legal compliance may be more difficult due to conflicting laws and regulations, including those relating to, among other things:

- employment, social security and collective bargaining;
- immigration;
- health and safety;
- competition; and
- environmental protection.

ISS is subject to economic risks and uncertainties in the countries in which it operates. Over the past few years, certain of the countries in which ISS operates have experienced economic growth and improved economic stability in certain sectors. However, there can be no assurance that economic growth will continue in the future. Any slowdown in the development of these economies, any deterioration or disruption of the economic environment in the countries in which ISS operates or any reduction in government or private sector spending may have a material adverse effect on ISS's business, financial condition, and results of operations. Furthermore, certain incidents could lead to international tension causing boycotts or otherwise restrict ISS's ability to perform its services. This may have a material adverse effect on ISS's, financial condition and results of operations.

ISS is also subject to political and social uncertainties, particularly in some of the developing countries in which it operates, which have been undergoing substantial political transformations. There can be no assurance that the political reforms necessary to complete such transformations will continue. The political systems in these countries may be vulnerable to the populations' dissatisfaction with reforms, social and ethnic unrest and changes in government policies. Any disruption or volatility in the political or social environment in these countries may have a material adverse effect on ISS's business, financial condition, and results of operations.

ISS delegates considerable operational responsibility to its subsidiaries. Although ISS has adopted Group-wide control procedures and reporting and codes of conduct policies and makes regular visits to its individual country operations, there can be no assurance that ISS will not experience incidents of accounting irregularities, unintended accounting misstatements or breaches of local legislation, any of which could, individually or collectively, have a material adverse effect on ISS's business, results of operations and financial condition.

ISS depends on its local management teams and employees, and ISS's inability to attract and retain qualified local managers or a sufficient number of qualified employees could harm its business and prevent ISS from implementing its strategy ISS has a decentralized organizational structure in which local managers retain substantial autonomy regarding the management of ISS's operations in their markets. As a result, ISS depends to a large extent upon these local managers, and its inability to attract and retain an adequate number of qualified local managers could have a material adverse effect on ISS's business and its ability to meet its objectives. The ability to retain key management personnel in acquired businesses is also important in order to ensure their effective integration into ISS and thus minimize the costs of integration. The resignation of key local managers may have a material adverse effect on ISS's business, results of operations and financial condition.

Employee costs make up ISS's largest single expense, representing approximately 66% of ISS's 2005 revenue, and its competitive strength partly depends upon its ability to attract, train and retain employees. The facility services and related industries are, in general, characterized by a relatively high staff turnover. To the extent that ISS is unable to offer satisfactory pay and working conditions, ISS could experience a labor shortage. A labor shortage may also arise due to low unemployment and increased competition for workers, requiring the use of temporary staff, which would likely increase ISS's staff costs. ISS's inability to attract and retain the required number of qualified employees could have a material adverse effect on its business, results of operations and financial condition.

In addition, many sectors of the facility services industry involve unionized employees. As these union contracts expire, ISS may be required to renegotiate them in an environment of increasing wage rates. There can be no assurance that ISS will be able to renegotiate union contracts on terms favorable to it or without experiencing a work stoppage.

Because ISS's officer and directors have only recently been appointed to their positions and possess limited facility services industry management experience, ISS relies on the senior managers of ISS Management to supervise the Group's day-to-day operations The officer and directors of ISS have been recently appointed to their positions. Moreover, the officer and the directors do not have significant management experience in the facility services industry or with respect to ISS's operations. As a result, ISS relies on the experience and industry knowledge of the senior managers who were employed by ISS prior to the acquisition of ISS (the "Acquisition") by FS Funding A/S ("FS Funding").

Following the Acquisition, these senior managers became employees of ISS Management A/S ("ISS Management"), a wholly owned subsidiary of ISS Global A/S ("ISS Global), and ISS Management entered into a management services agreement with ISS pursuant to which ISS Management assumed responsibility for the operational management of ISS Global's subsidiaries and for certain administrative services on behalf of FS Equity A/S, FS Funding, ISS and ISS Global. Pursuant to these arrangements, ISS depends on ISS Management to supervise the Group's day-to-day operations pursuant to the terms of the management services agreement.

The management services agreement may be terminated by ISS Management upon 12 months' notice, and the senior managers of ISS Management may terminate their existing employment contracts following expiration of a notice period between 6 and 12 months. As a result, ISS cannot assure that it will be successful in retaining the services of ISS Management and its current management team. The loss of such services could have a material adverse effect on ISS's business, results of operations and financial condition.

Consolidation in the facility services industry may adversely affect ISS's business ISS believes that the facility services industry will undergo consolidation during the next several years. ISS expects that, in response to such consolidation, it will consider from time to time additional strategies to enhance its business. These may include pursuing strategic alliances or joint ventures or purchase, sale or merger transactions with other companies. In considering any of these strategies, ISS will evaluate, among other things, the potential to leverage existing operations and assets, to the extent permitted under its financial instruments and credit agreements, as well as tax and accounting effects of the proposed transactions. In addition, such strategies could have various other significant consequences, including changes in ISS's management, control or operational or acquisition strategies. There can be no assurance that any one of these strategies will be undertaken or that, if undertaken, any such strategy will be implemented successfully.

ISS also expects to face significant competition in the acquisition of facility services businesses from companies that currently pursue, or in the future would pursue, acquisitions as part of their strategies, and competition for acquisitions may increase as the facility services industry undergoes continuing consolidation. Such competition could lead to higher prices for target companies limiting ISS's ability to grow through acquisitions on a cost effective basis and limit ISS's ability to implement its growth strategy.

ISS may incur liabilities for the actions of its employees As with other facility services providers, ISS's employees deliver services within buildings and at locations owned or operated by its customers. As a result, ISS may be subject to claims in connection with damage to property, business interruptions, unauthorized use of the customer's property or willful misconduct or other tortious acts by ISS employees or people who have gained unauthorized access to premises through ISS. Such claims may be substantial and may result in adverse publicity for ISS. Accordingly, these claims could have a material adverse effect on ISS's business, results of operations and financial condition.

ISS may incur liabilities in connection with its pension plans In certain countries, ISS has pension plans under which ISS has an obligation to provide agreed benefits to current and former employees. ISS's liabilities under defined benefit plans may be significantly affected by changes in the discount rate, the expected return on plan assets, the social security rate, the rate of increase in salaries and pension contributions, changes in demographic variables or other events and circumstances.

There can be no assurance that ISS will not incur additional liabilities relating to its pension plans, and these additional liabilities could have a material adverse effect on ISS's business, results of operations and financial condition.

Changes to local legislation and regulation relating to defined benefit plan funding requirements may result in significant deviations in the timing and size of the expected cash contributions under such plans.

ISS may incur liabilities that are not covered by insurance ISS carries insurance of various types, including workers' compensation, employment practices, pension related and general liability coverage. While ISS seeks to maintain appropriate levels of insurance, not all claims are insurable and there can be no assurance that ISS will not experience major incidents of a nature that are not covered by insurance. Furthermore, the occurrence of several events resulting in substantial claims for damages within a calendar year may have a material adverse effect on ISS. In addition, ISS's insurance costs may increase over time in response to any negative development in ISS's claims history or due to material price increases in the insurance market in general. There can be no assurance that ISS will be able to maintain its current insurance coverage.

ISS could be subject to potential environmental liabilities The environmental requirements applicable to industrial facilities, including landfill and waste management sites, and to the facility services industry, including those mandated by law, by customers and by unions, are becoming increasingly stringent. ISS anticipates that an increasing number of countries will introduce environmental taxes on the use of chemicals, including the cleaning materials that ISS uses. To the extent that ISS is unable to pass the costs of compliance with stricter environmental requirements and taxes on to its customers, its margins may decline, which could have a material adverse effect on ISS's business, results of operations and financial condition. In addition, ISS may be subject to claims resulting from ISS's handling and transportation of hazardous substances at its customers' properties.

ISS presently owns or operates a number of properties at which industrial activities or activities involving the daily handling of hazardous materials take place, including laundry facilities in Denmark and Norway and the waste management facilities in France described below. In the past, ISS owned or operated additional laundry facilities and facilities at which cleaning equipment and materials and security equipment were produced, each of which involved the daily use and handling of hazardous materials. The possible presence of pollution on properties currently or formerly owned, rented or operated by ISS may also result in claims for remediation of or other claims related to such pollution, including claims of property damage or personal injury, which could have a material adverse impact on ISS. Similarly, the value of properties owned by ISS may decrease significantly due to the existence of pollution, resulting in financial losses.

In France, ISS currently operates several waste management facilities and landfills. These sites are used for the collection, pretreatment, separation, recycling and disposal of non-hazardous waste, although at one of the sites there is temporary storage of liquid hazardous waste. ISS is required to apply for and maintain licenses issued by regulatory authorities in connection with the operation of these waste management and landfill sites. These licenses impose numerous obligations and prohibitions on ISS's operations, including on the types of waste that can be accepted, the stability of deposits, water ingress, leachate management, the use of liners and the investigation and clean-up of environmental impacts to soil and groundwater.

An independent environmental assessment carried out in August 2005 concluded that the waste management and landfill operations of ISS reviewed were in all material respects in compliance with applicable environmental regulations. Regulatory authorities can impose fines or penalties and remediation works in response to any such non-compliance. In addition, under certain circumstances they can modify or revoke ISS's operating licenses, which could force ISS to undertake a managed and controlled closure of these sites and to pay the resulting closure, aftercare and restoration costs. In the past ISS's facilities have not been in full compliance with all such regulations, although ISS has not been subject to material environmental sanctions.

Pursuant to applicable regulations, ISS is required to pay closure, aftercare and restoration costs in connection with its landfill and other waste management facilities in France and to accrue these costs over the operating life of the facilities. In addition, ISS may be held liable for any impact arising from the existence of a landfill for several years after the site has been closed. ISS's site in Diemoz, France is slated for closure in 2006, although ISS is currently seeking an extension of the operating permit to allow this site to operate until 2009. ISS contemplates the closure of another site in 2012. In addition, ISS is planning to phase out its activities at its current site in Bourges, France and move its activities to a new site within the next 18 months when construction of the new site is completed. The Bourges site has undergone restoration and ISS is monitoring portions of the site which were polluted.

ISS has established provisions in the amount of approximately DKK 61 million as of December 31, 2005, relating to its anticipated environmental liabilities and waste management contract obligations. In addition, ISS currently maintains performance bonds in the aggregate amount of approximately DKK 27 million as of December 31, 2005, to secure its obligations under local environmental regulations with respect to such facilities. However, ISS's closure, aftercare and restoration costs, unanticipated costs associated with waste management contracts or costs associated with unforeseen environmental problems of a site after its operating life, may exceed ISS's provisions or the amounts available from performance bonds ISS has established to pay for such costs.

ISS may incur substantial liabilities for any failure to meet applicable cleanliness or safety standards, and adverse publicity relating to any actual or alleged failure to meet such standards could damage ISS's reputation ISS's business is associated with public health and safety, particularly its cleaning of food preparation facilities, hospitals and abattoirs, as well as its cleaning of aircrafts. As a result, ISS may be subject to substantial liabilities if its failure to meet applicable cleanliness or safety standards results in harm to individuals or entities, including, for example, through contamination of food products produced at the facilities that ISS cleans or the outbreak of illness within the hospitals that it services. In addition, ISS could be held responsible for any breaches of airport security by its employees. Although ISS maintains insurance against product and service liability, there can be no assurance that ISS will not incur losses beyond the limits of, or outside the coverage of, ISS's insurance policies. In addition, ISS's reputation could be harmed by any actual or alleged failure to meet appropriate cleanliness or safety standards. Any publicity relating to incidents of this kind could have a material adverse effect on ISS's reputation and, therefore, its business, results of operations and financial condition.

ISS's operations and future growth may be affected by competition regulations ISS is subject to competition laws and regulations at the national and supranational level. Where ISS has a leading market position, these laws and regulations may reduce its operational flexibility and limit ISS's ability to make additional acquisitions and implement its strategy.

Although ISS has issued internal guidelines concerning compliance with competition laws and regulations, individual local managers may act against ISS's instructions and either inadvertently or deliberately violate applicable competition laws and regulations by engaging in prohibited activities such as price fixing or the allocation of markets or customers with competitors. Such actions may harm ISS's reputation and, if ISS is held responsible, the resulting fines and other sanctions could be substantial. Therefore, the occurrence of any such incidents may have a material adverse effect on ISS's business, results of operations and financial condition.

ISS's computer systems may fail or be interrupted, which could potentially harm its business ISS relies on numerous computer systems that allow it to track and bill its services, communicate with customers, manage its employees and gather information upon which management makes decisions regarding its business. The administration of ISS's business is increasingly dependent on the use of these systems. As a result, system failures or disruptions resulting from computer viruses, hackers or other causes could have a material adverse effect on ISS. In addition, pursuant to contracts with Computer Sciences Corporation and other vendors, ISS outsources the operation and maintenance of certain of its information technology systems to seek to ensure effective management of its information technology resources, as well as to improve the cost efficiency of ISS's information technology infrastructure, systems and applications. ISS relies on the ability of its outsourcing partners to deliver agreed services. Their failure to perform satisfactorily could have an adverse impact on ISS's business, results of operations and financial condition.

ISS's plans include increased development and use of computer systems in countries in which it operates. These plans may be affected by incompatibility of ISS's computer systems and software applications and the reliability of such systems and applications. Currently, ISS does not integrate the computer systems of all acquired businesses with its own computer systems. Non-compatibility between ISS's computer systems and software applications may require additional investment, and additional investment may also be required if system reliability is unsatisfactory. The levels of required investment in and the expenses related to information technology will also depend upon technological advancements and opportunities, market demands, competitive actions and other factors. To protect its competitiveness, ISS may have to allocate further resources to the development of information technology infrastructure and related business processes, which could have a material adverse effect on its business, results of operations and financial condition.

ISS may incur liabilities in connection with past divestments in excess of its provisions ISS has made provisions in its accounts for claims from purchasers or other parties in connection with divestments. However, there can be no assurance that ISS will not incur liabilities in excess of these provisions, and these excess liabilities, if significant, could have a material adverse effect on ISS's business, results of operations and financial condition.

ISS is subject to external events which are beyond its control The impact of natural disasters, fires, diseases, epidemics, outbreaks of hostilities or war, acts of terror or other external events is difficult to quantify. Thus, there can be no assurance that such factors will not have a material adverse effect on ISS's business, results of operations or financial condition.

Following the Acquisition, ISS depends on its parent, FS Funding, to provide sufficient financing for the Group's continued growth as set out in Route 101. Consequently, risks factors that could influence the financial standing of FS Funding could have a material negative effect on ISS's business and growth prospects. References to senior facilities ("Senior Facilities") and the senior facilities agreement ("Senior Facilities Agreement") of FS Funding refers to FS Funding's senior credit facilities.

ISS may be subject to legal action by the holders of its Medium Term Notes On May 27, 2005, the board of directors of FS Funding, ISS and ISS Global received a letter from a Danish law firm representing certain holders of ISS Global's Medium Term Notes. The letter stated that these holders had incurred losses as a result of declines in the trading price of the Medium Term Notes following FS Funding's announcement of its voluntary tender offer for the shares of ISS and the downgrading of the credit rating of ISS Global following FS Funding's announcement of its intention to increase the debt leverage of ISS Global in the future. It also stated that such holders would scrutinize whether any action taken or contemplated in connection with the financing of the Acquisition, including the implementation of ISS's financing structure, was in violation of the Danish Companies Act. The letter also noted that if, at the time the Medium Term Notes were offered and sold in 2004, either ISS Global, any of its directors or any member of its management team knew or should have known of EQT's and Goldman Sachs Capital Partners's intention to acquire ISS and the resulting changes to ISS Global's capital structure, there could be "serious questions of liability".

On July 28, 2005, ISS Global received a letter from an English law firm representing certain holders of Medium Term Notes requesting information concerning the structuring of the financing of the Acquisition and the offering of the notes and again raising the possibility of legal action. Specifically, the letter contemplated legal action in England to seek a declaration that the implementation of ISS's financing structure would result in a breach of the negative pledge covenant of the Medium Term Notes, which restricts ISS Global issuing certain indebtedness represented or evidenced by securities ("Relevant Indebtedness") which is secured over assets of ISS Global or its subsidiaries.

ISS's English and Danish lawyers engaged in correspondence and provided relevant extracts of finance documentation to these law firms, and to the group of noteholders who were instructing them, and who were prepared to agree to confidentiality undertakings (but did not necessarily constitute all the noteholders who had originally instructed or had otherwise been in contact with the two law firms) (the "Instructing Noteholders"), in order to demonstrate why ISS Global believed that these assertions were incorrect. In addition, ISS confirmed to these law firms and the Instructing Noteholders that neither ISS nor any of its subsidiaries or any of the directors or managers of any such entities had any knowledge of the proposed voluntary tender offer until March 2005, when the initial contacts relating to the voluntary tender offer were made to the Board of Directors of ISS, subsequent to the offer and sale of the Medium Term Notes. Furthermore, neither ISS nor any of its subsidiaries or any of the directors or managers of any such entities had any knowledge of the financing structure prior to May 2005.

Following the review of these documents and the information provided to them, discussions with the English legal advisors to ISS Global and subsequent changes to the documents, the Instructing Noteholders advised ISS Global in October 2005 that they were satisfied that the financing arrangements under the Senior Facilities Agreement will not result in any infringement of the terms of the Medium Term Notes nor will these arrangements otherwise be unlawful. This conclusion is consistent with the Danish and English legal advice obtained by FS Funding.

Notwithstanding the foregoing, ISS cannot assure that holders of the Medium Term Notes will not seek to institute an action or proceeding against ISS or any of its subsidiaries challenging the financing of the Acquisition, or that if instituted, any such action or proceeding would not be decided adversely to one or more of ISS or its subsidiaries. If such a suit is successful, a default judgment may be issued with respect to the Medium Term Notes which could lead to an acceleration of debt under other debt instruments containing cross-acceleration or cross-default provisions.

ISS's business may be adversely affected as a result of its substantial indebtedness ISS and its subsidiaries have and will continue to have a substantial amount of outstanding indebtedness and obligations with respect to the servicing of such indebtedness.

The substantial indebtedness could have important consequences, including:

- ISS to dedicate a substantial portion of cash flow to make payments on indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, new acquisitions and other general corporate purposes;
- increasing the vulnerability of ISS to general adverse economic and industry conditions;
- limiting the flexibility of ISS in planning for, or reacting to, changes in its business and in the facility services industry;
- limiting the ability of ISS to make acquisitions or take other corporate actions;
- placing ISS at a competitive disadvantage compared to competitors who have less indebtedness in relation to cash flow; and
- limiting the ability of ISS and the ability of ISS's subsidiaries to borrow additional funds and increasing the cost of any such borrowings, particularly because of the financial and other restrictive covenants contained in the Senior Facilities, the Medium Term Notes and the Indenture governing the notes, as well as the security required to be granted in support of the Senior Facilities.

In addition, to the extent that ISS's debt obligations are based on fixed interest rates, its ability to service these debt obligations could be adversely affected by deflationary periods in which prices for its services may decline, resulting in reduced cash inflows.

Changes to the consolidated financial statements of FS Funding and ISS resulting from the Acquisition may negatively affect public perception of the Group's financial condition The consolidated financial statements of ISS and FS Funding are generally available to the public. Existing and potential creditors, customers, suppliers and others may review these financial statements in order to assess the Group's financial condition. The Acquisition has resulted in significant changes to the consolidated financial statements of ISS which have caused these statements to deviate substantially from its historical consolidated financial statements. For instance, in connection with the Acquisition, ISS has significantly increased its indebtedness. In addition to the significant indebtedness, the Acquisition has also resulted in a number of accounting adjustments to FS Funding's financial statements, including purchase price accounting adjustments. These adjustments significantly increased consolidated non-cash expenses, resulting in FS Funding incurring a consolidated net loss for the period from March 11, 2005 to December 31, 2005, and FS Funding expects to continue to generate net accounting losses in the foreseeable future due to these non-cash expenses. Because of such accounting losses and the risk of goodwill impairment and other non-cash charges as well as charges recognized directly in equity, such as actuarial losses, foreign exchange rate adjustments and losses on hedges, there is a risk that FS Funding's equity will become negative. There can be no assurance that the effect of the Acquisition on these financial statements will not adversely affect the perception of ISS among third parties, including existing and potential creditors, customers and suppliers, or that the effect of the Acquisition will not adversely affect the willingness of such persons to enter into new contracts with, or to continue to transact business with ISS. Any such damage to ISS's reputation could have a material adverse effect on its business, results of operations and financial condition. In addition, the changes to the financial statements may make it more difficult for FS Funding and ISS to obtain financing on advantageous terms and creditors may be more likely to require guarantees or security in connection with the extension of credit.

FS Funding is a holding company and is completely dependent on cash flow from its operating subsidiaries to service its indebtedness

FS Funding is a holding company, and its primary assets consist of shares in ISS and cash in its bank accounts. FS Funding has no revenue generating operations of its own, and therefore FS Funding's cash flow and ability to service its indebtedness, will depend primarily on the operating performance and financial condition of ISS and its operating subsidiaries, and the receipt by FS Funding of funds from ISS and its subsidiaries in the form of dividends or otherwise. The operating performance and financial condition of ISS and its operating subsidiaries and the ability of ISS and its subsidiaries to provide funds to FS Funding by way of dividends or otherwise will in turn depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond FS Funding's control.

The Senior Facilities contain covenants that restrict FS Funding and its subsidiaries from making distributions or other payments to creditors unless certain financial tests and other criteria are satisfied. The terms of other agreements to which FS Funding and its subsidiaries may be or become subject may also restrict the ability of its subsidiaries to provide funds to FS Funding. In addition, FS Funding and its subsidiaries may incur other debt in the future that may contain financial or other covenants more restrictive than those contained in the Senior Facilities or the Medium Term Notes.

Applicable laws and regulations including local accounting regulations may also limit the amounts that FS Funding's subsidiaries are permitted to pay as dividends or distributions. These restrictions include, among others, prohibitions under Danish and other local laws against the payment of dividends unless these payments are made out of reserves available for distribution.

Goodwill impairment and other non-cash charges in ISS's consolidated income statement, as well as charges recognized directly in equity, such as actuarial losses, foreign exchange rate adjustments and losses on hedges, if incurred, could potentially reduce ISS's reserves available for distribution and thus reduce or prevent dividend payments to FS Funding.

FS Funding believes that ISS's expected cash flows, together with available borrowings, will be sufficient to provide FS Funding with the ability to service its indebtedness. There can be no assurance that future borrowings will be available to FS Funding or ISS in an amount sufficient to enable FS Funding to pay its debt when due or to fund other liquidity needs. If ISS's future cash flows from operations and other capital resources are insufficient for FS Funding to pay its obligations as they mature or to fund liquidity needs of FS Funding and its subsidiaries, FS Funding and its subsidiaries may, among other things be forced to:

- reduce or delay business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of their debt on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

There can be no assurance that any of these alternatives can be accomplished on a timely basis or on satisfactory terms, if at all. In addition, the terms of FS Funding's and its subsidiaries' existing and future debt, including the Medium Term Notes and the Senior Facilities, may limit their ability to pursue any of these alternatives.

Restrictions in ISS's debt instruments may limit FS Funding's ability to operate its business The Senior Facilities and the Medium Term Notes each contain covenants that limit the discretion of management with respect to certain business matters. For example, these covenants will significantly restrict the ability of FS Funding and certain of its subsidiaries to, among other things:

- incur additional debt;
- pay dividends or distributions on, redeem or repurchase capital stock;
- make certain payments and investments;
- create certain liens;
- transfer or sell assets;
- engage in sale and leaseback transactions;
- merge or consolidate with other entities;
- enter into transactions with affiliates; and
- provide security over assets.

These covenants could materially and adversely affect FS Funding's ability to finance the future operations or capital needs of ISS or its subsidiaries or to engage in other business activities that may be in the best interests of ISS or its subsidiaries.

The failure by FS Funding or any of its subsidiaries to comply with the terms of their respective debt instruments may result in acceleration of such indebtedness as well as cross defaults under other indebtedness, and FS Funding or its subsidiaries may not have sufficient assets to repay the accelerated indebtedness If FS Funding or any of its subsidiaries, as the case may be, does not comply with the covenants (including financial tests) and restrictions of the Senior Facilities or the Medium Term Notes and any future new credit facilities, FS Funding could be in default under those agreements, and the debt incurred under those agreements, together with accrued interest, could then be declared immediately due and payable. If a default occurs under the Senior Facilities or the Medium Term Notes, the lenders under such indebtedness could, subject to restrictions on enforcement rights, cause all the outstanding debt obligations thereunder to become due and payable, thereby requiring FS Funding or ISS Global, as the case may be, to apply cash to repay the debt thereunder and/or prevent it from making debt service payments on its other debt. In addition, any default under the Senior Facilities or the Medium Term Notes could lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross default provisions. If the debt under the Senior Facilities, the Medium Term Notes or other debt instruments is accelerated, FS Funding or ISS Global, as the case may be, may not have sufficient assets to repay amounts due thereunder. FS Funding's ability to comply with the provisions of the Senior Facilities, the Medium Term Notes and agreements governing its other debt may be affected by changes in economic or business conditions or other events beyond its control.

ISS may not be able to raise the funds necessary to refinance indebtedness at the maturity date In 2010, EUR 850 million of the Medium Term Notes of ISS Global will mature and EUR 500 million of the Medium Term Notes of ISS Global will mature in 2014. In addition, the Senior Facilities will mature in 2012. ISS intends to repay the principal amount of such indebtedness and the principal amount of the notes at maturity using funds obtained from other financing sources, rather than with cash from operations. Although ISS expects to be able to raise funds to repay such indebtedness as it matures, and to repay the principal amount of the notes at their maturity, through the use of other sources of indebtedness, it may not be able to do so on terms as favorable as its existing indebtedness, if at all. The failure to pay the principal amount of this indebtedness at maturity would constitute an event of default under such indebtedness and would result in a cross-default under the Group's other financing arrangements.

"Masquerade" **– Oil on canvas – January 17, 2003.**

Operational Review

Route 101

On April 14, 2005, ISS announced the new strategy plan, Route 101. The decision to launch Route 101 had been taken before EQT Partners and Goldman Sachs Capital Partners made their interest in ISS known to the Board of Directors and management of ISS A/S and announced a public tender offer for ISS A/S. Neither the contents nor the format of Route 101 were influenced by the public tender offer.

Route 101 is an extension of ISS's strategy plan from 2002, create2005 in the sense that no change of direction is planned. Route 101 focuses on implementation and action. Although Route 101 is a natural extension of create2005, there are certain differences highlighted below.

DESTINATION PLAN

Route 101 is a *destination plan* in contrast to the two "term of years" strategy plans, which ISS has announced since 1997. This means that the destination is fixed, but the number of years it will take to reach it is variable, depending on business conditions and circumstances beyond ISS's control.

The destination described in the new plan is a Facility Services company with revenue of DKK 101 billion. The route is described in terms of service offerings, organization, geography, etc. Hence, the name Route 101.

By focusing on a destination rather than a fixed span of years, ISS focuses on mapping the initiatives necessary to reach the destination. The plan therefore centers on calibrating the kind of services, organization, systems, etc. needed to reach the destination.

FACILITY SERVICES

ISS continues to transform itself towards a facility services company.

This means that ISS wants to offer a wide range of services within the four pillars:

- Cleaning
- Office support services
- Property services
- Catering

Service solutions are offered to the customer as single services, multi services or integrated facility services (IFS) depending on the customer's demands.

In a single service outsourcing the customer

buys one service solution from ISS, e.g. outsourcing of cleaning or property services. The customer thereby enjoys the benefits of outsourcing to ISS such as service know-how and best practices, labor management and handling of all HR issues, procurement benefits, reduced financial administration of the outsourced service area, increased operational flexibility, etc.

In a multi service outsourcing the customer achieves the same benefits as single service outsourcing only for each outsourced service area as well as benefits of service integration where possible.

In an integrated facility services solution ISS takes over all or most of the service functions at the customer's premises, provided the service is within the four pillars of ISS services. The customer thereby gets the full potential of single service outsourcing and enjoys the benefits of an ISS on-site management solution that exploits the synergy potential, and as a result provides the customer with a better solution at a competitive price.

Route 101 implies no major changes to the services included in ISS's facility services offering. The Business Builds, which were part of create2005, have either been disposed of or integrated into the facility services organizations.

OPERATIONAL EFFICIENCY

ISS will seek to maintain and enhance operational efficiency by retaining its focus on three well-established and prioritized operational objectives for its local managers: (i) cash flow; (ii) operating margin; and (iii) profitable organic growth.

Cash flow ISS's first objective is to continue to maintain a relatively high rate of cash conversion primarily by operating in a manner that optimizes working capital. Through this approach, ISS expects to continue to generate positive free cash flow, although it does not expect that its cash conversion ratios will continue to be above 100% as it has been in recent years.

Operating margin ISS's second objective is to maintain or improve its operating margin, which has increased from 5.1% in 2000 to 5.7% in 2005. ISS will seek to generate operational efficiencies by increasing its local market positions and operational densities, as well as through the implementation of company-wide best practices.

Profitable organic growth ISS's third objective is to continue to leverage its international market position and service offering in order to increase its local market positions and drive organic growth. To do this, ISS has introduced a wide range of initiatives to: (i) attract new customers; (ii) increase customer retention rates, including through the establishment of dedicated key account teams; and (iii) cross-sell related services, such as pest control and washroom services, to existing customers. Additionally, ISS has established a market presence and operating platforms in selected high-growth economies, such as Brazil, Russia, India and China.

Reduce financial leverage Following the acquisition of ISS A/S by FS Funding A/S, ISS is determined also to seek to reduce, on a multiple basis, the financial leverage of the FS Funding Group, which increased as a result of the acquisition.

GROWTH

Having reached the planned levels for margin and cash conversion during the first four years of create2005, ISS will focus more on organic growth.

A wide range of initiatives will underpin organic growth spanning from further investment in the growth economies of the world via an enhanced sales force and training to new customer retention initiatives.

ISS expects to continue to make acquisitions to facilitate its strategy of increasing local scale, broadening its local service offering and accessing new markets. Since the beginning of 2000, ISS has acquired and integrated more than 400 businesses, more than 350 of which were acquisitions of relatively small businesses with annual revenues of less than DKK 100 million (EUR 13.4 million). The two largest acquisitions to date have been Abilis in France and Tempo Services Limited in Australia which on the date of the respective acquisitions had estimated revenue of approximately DKK 5.2 billion and approximately DKK 2.9 billion. ISS expects to continue to focus primarily on smaller acquisitions, which it believes will reduce the risks relating to individual acquisitions and enable it to leverage the experience of local management teams throughout its countries of operation. ISS cannot provide any assurance, however, that it will not pursue larger acquisitions in the future. To access new geographical markets, ISS intends to establish operating platforms in higher growth markets, including through acquisitions.

It is important to emphasize that acquisition-driven revenue growth will vary widely from year to year, among other things depending on opportunities, organizational capability, financial resources, etc. and thus the acquisition speed could deviate significantly from the range mentioned above.

GEOGRAPHY

ISS intends to increasingly focus on the BRIC-countries (Brazil, Russia, India and China) as well as other growth markets, typically located east of Western Europe.

Entering the United States or other major countries is not ruled out in the strategy plan.

As the growth targets, which comprise acquisition and organic growth, indicate, Route 101 is a plan for a gradual change and expansion of ISS's geographical footprint.

In 2005 ISS made country establishments in Russia and India and thereby fulfilled the first target of full presence in the BRIC countries. Furthermore, the presence in China was significantly expanded in 2005 through an acquisition. Country operations were also established in New Zealand, Turkey and Estonia. All three countries were high on the Route 101 priority list for new country establishments.

ORGANIZATION

As a foundation for Route 101 and as part of the plan itself, ISS is transforming its organization to allow it to focus on expanding the geographical footprint and accelerating the service development. Head office resources focusing specifically on China and India have been appointed. Organizational resources have also been added for Eastern Europe, Russia, Australia and Latin America in order to support the development of these geographies.

Training and education is central to the plan. ISS will invest even more in these areas in order to continue to accelerate its transformation towards integrated facility services.

ISS Academy was established in 2005 as a part of ISS University. ISS University will focus on top management training, whereas ISS Academy will reach further out into the organization and particularly focus on operational programs related to the implementation and management of integrated facility services.

SYSTEMS AND METHODOLOGIES

ISS will invest further in systems and methodologies. A “Corporate Solution”, i.e. a standardized IT-business solution, has been further developed and shared initiatives in a number of areas such as planning tools, facility service management systems, etc. will be strengthened.

THE 101-COMPANY

At the destination set out in Route 101, ISS should be a facility services provider with a wider geographical footprint than today. The 101-company should fulfill the vision to *“Lead Facility Services globally”*.

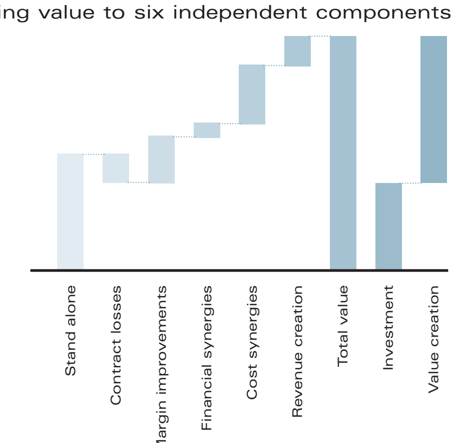
Acquisitions

ISS considers acquisitions an integral part of the business model. Acquisitions are the Group’s primary means of investing in the business, to develop and refine the business concept and to continuously strengthen competitiveness in an unconsolidated industry structure.

The acquisition process is aimed at creating value for shareholders. The acquisition process is anchored with local management teams enabling them to take advantage of and leverage the local presence. The local management team screens the market for potential targets and builds a pipeline of qualified opportunities. The management teams stay involved throughout the acquisition process from the very beginning of target identification to the final step of the integration to make sure that responsibility and focus on the execution is maintained.

ISS’s mergers and acquisitions department manages the acquisition process, primarily with respect to valuation of the acquisition and negotiation of the material acquisition agreements, to the extent that its centralized resources add value. This centralized department is responsible for quality assurance with respect to all acquisitions and is a driving force with respect to centralized pipeline management in the country organizations. The centralized pipeline management ensures that each subsidiary continues to explore acquisition opportunities which would contribute to the achievement of ISS’s objectives. ISS’s mergers and acquisitions department is more heavily involved in all larger acquisitions, and all acquisitions are approved by the Executive Management Board of ISS Management A/S. In addition, the approval of the Board of Directors is required for large or strategic acquisitions. The most important element of Group involvement is in the valuation of acquisitions. On a discounted cash flow basis a total value of the target is estimated by assigning value to six independent components (see illustration).

1. Stand alone value of the target
2. Value of expected contract losses
3. Value of expected margin improvements
4. Value of expected financial synergies
5. Value of expected cost synergies
6. Value of expected future organic growth



The value creation to ISS (MVA) is measured by the difference between the total value (sum of the parts) and the investment.

The Group operates with three key valuation indicators. First, the time structure of the MVA and the EVA break-even horizon is assessed. In addition Return on Investment (ROI) and price multiples are assessed and measured up against appropriate benchmarks varied according to size, industry segment, geography, etc. In addition to the mentioned valuation parameters a range of other criteria are employed on a discretionary basis.

Segmental Summary

Country	DKK millions Revenue	DKK millions Operating profit before other items	Operating margin, %	Revenue growth, % Organic	Revenue growth, % Acquisitions, net of divestments	Revenue growth, % Currency	Revenue growth, % Total	Employees at December 31
2005								
France	8,822	564	6.4	5	8	0	13	40,168
The United Kingdom	6,036	370	6.1	4	6	(1)	9	38,015
Denmark [1]	3,756	267	7.1	2	3	0	5	13,409
Norway	3,724	271	7.3	5	11	5	21	9,528
The Netherlands	3,259	200	6.1	1	4	0	5	21,024
Sweden [2]	3,170	133	4.2	(4)	11	(2)	5	10,156
Finland	3,132	235	7.5	1	27	0	28	12,488
Spain	2,675	158	5.9	8	41	0	49	20,664
Belgium and Luxembourg	2,341	146	6.2	4	9	0	13	10,921
Germany [3]	1,791	56	3.2	0	14	0	14	13,982
Switzerland	1,399	95	6.8	2	19	0	21	7,393
Austria	1,367	105	7.7	11	8	0	19	7,477
Central Eastern Europe [4]	486	38	7.8	(2)	2	4	4	11,178
Ireland	463	40	8.7	10	44	0	54	2,950
Brazil	458	25	5.5	7	9	18	34	12,571
Hong Kong	434	26	6.1	8	14	0	22	7,475
Israel	375	23	6.1	(1)	2	0	1	5,891
Singapore	366	21	5.7	4	13	2	19	4,693
Australia	338	40	11.8	6	30	4	40	860
Turkey	298	17	5.7	0	0	0	0	5,953
Portugal	283	20	7.0	12	13	0	25	4,058
Greece	208	13	6.1	(3)	10	0	7	1,490
Italy	202	22	10.9	2	3	0	5	590
Thailand	115	8	6.7	18	6	0	24	7,456
Indonesia	92	9	9.4	45	(3)	(9)	33	11,700
Argentina	77	1	1.7	35	61	1	97	2,171
Poland	72	3	3.7	(4)	1	11	8	1,834
Malaysia	70	5	7.3	0	1	1	2	2,292
Chile	58	4	6.7	52	149	10	211	2,443
New Zealand	55	2	2.8	–	–	–	–	1,042
China	48	2	3.5	–	–	–	–	8,428
Estonia	33	1	3.6	–	–	–	–	1,608
Russia	24	(6)	(26.0)	–	–	–	–	638
Sri Lanka	20	1	3.7	17	0	1	18	4,960
Brunei	16	3	20.9	8	9	1	18	271
India	13	0	2.5	–	–	–	–	2,768
Uruguay	5	0	4.5	15	159	14	188	209
Regional items, not allocated to countries	–	(23)	–					–
Total continuing operations	**46,081**	**2,895**	**6.3**					**310,754**
Health Care	310	38	12.2	0	(49)	(1)	(50)	–
Japan	49	2	3.3	(2)	(34)	(1)	(37)	–
Total discontinued operations	**359**	**40**	**11.1**					**–**
Corporate	–	(285)	(0.6)					91
Group [2]	**46,440**	**2,650**	**5.7**	**3**	**11**	**1**	**15**	**310,845**

[1] Including Iceland, Greenland and the Faroe Islands.
[2] Excluding Health Care.
[3] Revenue from the hospital cleaning services business in Germany, which is being phased-out, is included in acquisitive growth, net. Excluding the phase-out, acquisitive growth, net, in Germany and the Group was 32% and 11%, respectively.
[4] Including the Czech Republic, Slovenia, Slovakia, Romania, Hungary and Croatia.

Business Review

ISS has prepared its consolidated financial statements for 2005 in accordance with the International Financial Reporting Standards (IFRS). In the review of country operations below, comparative figures for 2004 have been restated to IFRS and consequently may differ from the figures published in the Annual Report 2004, which was prepared in accordance with Danish GAAP. The applied accounting policies are described in note 1 and the impact of adopting IFRS is discussed in note 37 to the consolidated financial statements.

FRANCE

ISS France increased its revenue by 13% to DKK 8,822 million, consolidating its position as the Group's largest country in terms of volume. With organic growth of 5%, ISS France remained above Group level, particularly driven by waste management and pest control, service areas which both achieved double-digit growth rates. Growth was accomplished through sustained focus on the sales process combined with efforts to reduce customer losses. Acquisitions, net, contributed 8% to revenue growth.

The competitive situation in France remained challenging in 2005. An increase in the minimum wage, effective July 2005, was partially compensated for through price increases and productivity gains. Furthermore, closure costs were incurred as some significant contracts were lost due to customers' relocation. These factors resulted in an operating margin of 6.4% compared to 6.8% in 2004.

The development of facility services continued in 2005 through 13 acquisitions. The position in office support services was strengthened by bolting-on acquisitions to the platforms established in 2004 within access control and reception services. Efforts were made to bring the offering of these services closer together and stimulate cross-selling. The efforts to bring the pest control activities closer to the facility services organization with a view to achieving additional cost and sales synergies continued.

	2005	2004
Revenue, DKK millions	8,822	7,799
Organic growth, %	5	6
Operating margin, %	6.4	6.8
Employees at year-end	40,168	37,973

As part of the Group Restructuring Project described on page 10 of this report, the Group further optimized the organization in France during 2005. The initiatives included consolidation of office locations and operational sites. In addition, ISS France further focused the business by divesting three non-core businesses. The costs related to the Group Restructuring Project, the divestments and the acquisition of ISS A/S by FS Funding A/S "Costs related to the change of ownership of ISS" amounted to DKK 29 million, which were included in Other income and expenses.

THE UNITED KINGDOM

ISS UK generated revenue of DKK 6,036 million in 2005, an increase of 9%. Acquisition growth was 6%, while organic growth and currency adjustments contributed 4% and (1)%, respectively. Organic growth was driven by contract wins and increases in Facility Services including ISS Mediclean, and in the damage control business, which benefited from weather conditions and improved cross-selling within the ISS businesses.

	2005	2004
Revenue, DKK millions	6,036	5,537
Organic growth, %	4	5
Operating margin, %	6.1	6.6
Employees at year-end	38,015	37,890

The operating margin was down from 6.6% to 6.1%. This was due to a continued strong performance in a number of business areas being offset by a decrease in revenue in building services and food hygiene. The operating margin was further impacted by the full-year effect of strategic margin-dilutive acquisitions and investments made in business development further strengthening the market position, particularly on the Private Finance Initiative (PFI) market. The operating profit excludes income of DKK 33 million from the sale of ISS's interest (PFI stake) in Catalyst Health Care Holdings Ltd. and costs of DKK 29 million related to the Group Restructuring Project, costs related to the change of ownership of ISS, divestment of a non-core business, and a potential labor related settlement. The net income of DKK 4 million was included in Other income and expenses.

ISS UK remained focused on developing an organization that offers integrated facility services in both the commercial and the public sector. In the public sector, ISS Mediclean is already a long established provider of integrated services. In the commercial sector, ISS complemented the service offering by acquiring a pest control company and taking the provision of landscaping services nationwide. An important step in the ability to compete for integrated facility services contracts was taken at the beginning of 2006, when ISS UK added security services to its service offering through the acquisition of Pegasus, a company with an annual revenue of approximately DKK 427 million, operating throughout the United Kingdom.

DENMARK (INCLUDING ICELAND, GREENLAND AND THE FAROE ISLANDS)

In 2005, revenue increased 5% to DKK 3,756 million. During the last two years, ISS Denmark has focused on improving the sales process and reducing losses. The results materialized in 2004 in the form of a slightly positive organic growth rate. In 2005, the positive momentum continued and organic growth increased further to 2%. The improvement was in part fuelled by the establishment of a route-based and site-based organization.

In addition segmentation by customer size facilitated increased focus on selling additional services to existing customers. Furthermore, activities within damage control and snow removal contributed to organic growth. Acquisitions, net, added 3% to revenue in 2005.

2005 was a breakthrough year for integrated facility services in Denmark. A number of new contracts for the provision of integrated facility services solutions were signed, including ISS's largest integrated facility services contract to date: a five-year agreement with the Danish telecom company, TDC, with a triple-digit DKK million annual contract value to start in the beginning of 2006. The contract covers a range of services related to the operation of properties at TDC. These include reception, cleaning, catering, janitor services, and several other services. The contract involves approximately 500 employees, as well as management responsibility for 85 TDC employees.

The operating margin was 7.1% in 2005 compared to 6.4% in 2004. The increase was partly due to a combination of productivity gains and synergies from integrated facility services contracts. In addition, the damage control activities went from being loss-making in 2004 to being profitable in 2005.

As a part of the Group Restructuring Project, the Group initiated efforts to further centralize the facility services organization and consolidate branches. In addition, ISS Denmark divested a non-core business and completed the downscaling of damage control activities. Costs of DKK 42 million related to these initiatives were recognized in Other income and expenses.

	2005	2004
Revenue, DKK millions	3,756	3,578
Organic growth, %	2	0
Operating margin, %	7.1	6.4
Employees at year-end	13,409	13,062

ISS Greenland accounts for approximately 3% of ISS Denmark's revenue. In 2005 both revenue and operating margin were negatively affected by a significant customer downsizing its production sites. Overall, the operating margin went up because significant non-recurring costs impacted results in 2004. ISS Iceland, contributing approximately 4% of ISS Denmark's revenue developed positively with revenue going up 28%, of which 15% was organic growth. The operating margin declined marginally, impacted by a low level of unemployment which increased recruitment costs. The food hygiene activities in the Faroe Islands, which commenced in 2004, increased volume and the operating profit went from a loss in 2004, due to start-up costs, to a profit in 2005.

NORWAY

The Norwegian organization continues to develop its integrated facility services offering, and is one of the Group's most advanced country organizations in this field. In 2005, 11 acquisitions expanded the service offering. In particular, ISS Norway added competencies within office support through acquisitions of businesses offering document management and temporary staffing.

Revenue was DKK 3,724 million, an increase of 21% of which 5% stemmed from currency adjustments. Acquisitions contributed 11%, including the acquisition of the remaining 52% stake of the catering company, Grødegaard not already owned by ISS Norway. Since 2003, ISS has held a 48% stake and therefore previously included the activities as an associated company in the consolidated financial statements.

	2005	2004
Revenue, DKK millions	3,724	3,084
Organic growth, %	5	(1)
Operating margin, %	7.3	6.8
Employees at year-end	9,528	7,343

The general market conditions eased somewhat during 2005. However the fierce price competition, particularly within cleaning and catering services, intensified. In spite of this, ISS Norway achieved organic growth of 5%. The improvement resulted from focused efforts which included the implementation of a customer oriented organization, a contract retention strategy, and a general strengthening of the sales organization.

The operating margin was 7.3% compared to 6.8% in 2004. The increase was due to a settlement of a defined benefit plan in 2005. Part of the income was invested in organic growth initiatives during the year, leading to an organic growth rate of 7% for Q4 2005.

As part of the Group Restructuring Project investments were made to consolidate the branch structure of ISS Norway. In addition, costs were incurred in connection with the announced downscaling of damage control as described on pages 7-8 of this report. The costs related to the Group Restructuring Project, downscaling and costs related to the change of ownership of ISS amounting to DKK 35 million were recognized in Other income and expenses.

THE NETHERLANDS

In the Netherlands, market conditions remained challenging due to a slow moving economy. The market for cleaning services declined with even fiercer price competition. In spite of these conditions, ISS generated revenue of DKK 3,259 million, an increase of 5% compared to 2004. After three years of negative organic growth, the trend was reversed in 2005. Organic growth stood at 1%, primarily fuelled by growing activity in the hospital segment and in catering, office support and integrated facility services. Acquisitions contributed 4% to revenue growth.

The concept of integrated facility services gained further momentum on the Dutch market. ISS took steps towards completing its integrated facility services offering, as the service range was expanded in office support through the acquisition of a call center business. Another bolt-on acquisition expanded the geographical presence of landscaping activities.

ISS Netherlands responded to the difficult market situation by focusing on productivity-enhancing measures. The operating margin of 6.1% declined from 6.2% in 2004, when the operating margin was positively impacted by the settlement of a defined benefit pension plan.

The Group Restructuring Project included headcount reductions as part of centralizing back office functions. The costs of these measures and other expenses not deemed part of the normal ordinary operation amounted to DKK 21 million and were included in Other income and expenses.

	2005	2004
Revenue, DKK millions	3,259	3,094
Organic growth, %	1	(5)
Operating margin, %	6.1	6.2
Employees at year-end	21,024	21,904

SWEDEN

As described on pages 7-8 of this report, ISS's Health Care operations in Sweden were divested in 2005. The comments below relate exclusively to the continuing business in Sweden.

ISS Sweden reorganized its operational structure and launched a new growth strategy. Responding to a general increase in the demand for integrated facility services in Sweden, this included increased focus on the ability to provide a full service offering including integrated facility services. Six acquisitions made in 2005 added critical mass within office support and established ISS Sweden as a central provider of landscaping services.

In 2005, revenue increased 5% to DKK 3,170 million, negatively impacted by currency adjustments of 2%. Acquisitions, net, added 11% to revenue growth while organic growth was negative by 4%. However, this did not reflect a number of new significant contracts, which ISS Sweden entered into towards the end of the year. These included a partnership with Stockholmståg, a train operator in Stockholm, the capital of Sweden. Under a five-year contract ISS will be responsible for cleaning services and the sale and inspection of train

	2005	2004
Revenue, DKK millions	3,170	3,009
Organic growth, %	(4)	(6)
Operating margin, %	4.2	3.5
Employees at year-end	10,156	10,146

tickets, passenger information services and graffiti removal. Other contracts included a countrywide agreement to service Sweden's chemists, Apoteket, and an integrated facility services contract with Forsmarks Kraftgrupp.

The competitive situation in Sweden intensified in 2005. ISS Sweden's operating margin increased to 4.2% compared to 3.5% in 2004. This resulted primarily from improved performance in the property division. However, this was partly offset by continuing difficult market conditions in the damage control segment with a low level of activity leading to price pressure.

The Group Restructuring Project included reduction of leaseholds and staff reductions resulting from back office consolidation. In addition, ISS incurred costs related to downscaling of damage control activities and divestments and closure of non-core activities. In total, DKK 75 million were included in Other income and expenses in 2005.

FINLAND

ISS Finland is among the countries with the Group's most developed facility services concept. All four core services are provided as integrated services based on a fully customer focused business model. ISS Finland has developed a business concept based on the life cycle of a facility. Today, ISS is positioned to handle most of the services related to day-to-day operations and maintenance of a facility from the very beginning of the life cycle.

ISS Finland operates a franchise model for the small-sized customer segment. The model has proven effective in the Finnish business environment with its entrepreneurial spirit and legislation that ensures the protection of ISS's interests. The implications for the core business system have been increased focus and commitment to serving large customers.

	2005	2004
Revenue, DKK millions	3,132	2,441
Organic growth, %	1	10
Operating margin, %	7.5	8.0
Employees at year-end	12,488	13,303

For ISS Finland, 2005 was a year of consolidation and integration following nine acquisitions in 2004, including the acquisition of Engel which added revenue of approximately DKK 1.4 billion and 6,600 new employees. Revenue increased to DKK 3,132 million as a result of 27% revenue growth from acquisitions, net, and organic growth of 1%. ISS Finland has historically had organic growth rates at a higher level but due to the integration of Engel, the focus was directed towards retaining customers rather than generating new sales.

The planned synergies from the Engel acquisition materialized in almost all areas, but the integration efforts involved temporary inefficiencies and higher costs than expected. Furthermore, the Finnish market experienced fierce competition during 2005 due to increased price pressure from public sector customers as well as weaker demand from the industrial sector which downsized their local production.

Accordingly, the operating margin declined to 7.5% from 8.0% in 2004. However, this is still among the best performances of the Group's large country organizations.

SPAIN

Revenue in ISS Spain increased 49% to DKK 2,675 million in 2005. Acquisitions contributed 41% revenue growth, primarily due to the acquisition of Grupo Unica in 2004 which added approximately DKK 1.2 billion in revenue. Organic growth stood at 8% after focusing on retention of existing contracts and an upgrade of the sales organization in terms of focus and skill-set.

In 2005, ISS Spain made bolt-on acquisitions within pest control and cleaning services. The focus on developing the integrated facility services concept in ISS Spain was sustained. Landscaping services were added to the service offering through two acquisitions and the offering of office support services was commenced based on greenfield activities.

The integration of Grupo Unica was successfully completed during 2005. Grupo Unica operated with a lower margin on average than the existing ISS business in Spain, but a strict focus on efficiency brought the overall operating margin for ISS Spain to 5.9% from 5.7% in 2004.

	2005	2004
Revenue, DKK millions	2,675	1,791
Organic growth, %	8	8
Operating margin, %	5.9	5.7
Employees at year-end	20,664	18,091

The Group Restructuring Project included headcount reductions in Spain as part of a reorganization of its activities. This resulted in costs of DKK 8 million, which were included in Other income and expenses.

BELGIUM AND LUXEMBOURG

In 2005, ISS Belgium initiated the transformation towards integrated facility services and resources were devoted to bringing the concept of integrated services to the market. Four acquisitions expanded the offering of cleaning services, strengthened the position on the catering market, and added new competencies within HVAC to the property services offering.

Revenue of DKK 2,341 million was 13% above last year. Acquisitions added 9% revenue growth.

Organic growth of 4% sustained the positive development from 2004 where it – after three years of negative organic growth – reached a turning point and became positive. The improvement was the result of a restructured sales process with emphasis on a key accounts sales structure.

ISS Belgium maintained its focus on profitability during 2005. The operating margin was 6.2% compared to 5.9% in 2004. The improvement was the result of operational efficiency and tight cost control.

In addition to costs related to the change of ownership of ISS, ISS Belgium incurred costs related to the consolidation of back office activities under the Group Restructuring Project. In total, costs of DKK 4 million were recognized in Other income and expenses.

	2005	2004
Revenue, DKK millions	2,341	2,072
Organic growth, %	4	2
Operating margin, %	6.2	5.9
Employees at year-end	10,921	9,990

GERMANY

Business conditions in Germany remained challenging with continued fierce price competition. For a number of years ISS's business in Germany has suffered from Germany's VAT-regulations, which do not allow public sector hospitals to deduct VAT. This has encouraged the hospitals to continue to in-source service contracts. Since ISS did not anticipate a change in the negative development, ISS decided in February 2005 to discontinue its activities in the hospital segment through a phase-out of larger contracts. All sales and business development activities were stopped and existing customer contracts have been or will be phased out during 2005 and 2006. Only small contracts (if any) where the VAT problem is not prohibitive will remain by 2007 and they will be serviced by the facility services organization. Of total annual revenue of approximately DKK 400 million, contracts representing annual revenue of approximately DKK 300 million had been phased out at the end of 2005. The organic growth of ISS Germany (and the Group) excludes the phased out contracts and includes only the continuing business.

	2005	2004
Revenue, DKK millions	1,791	1,568
Organic growth, %	0	(13)
Operating margin, %	3.2	1.7
Employees at year-end	13,982	16,462

Revenue of DKK 1,791 million represented an increase of 14% over 2004. Following the discontinuation of the German hospital business, organic growth in ISS Germany was positive for the first time in more than 10 years with an upward trend at the end of the year. This was in spite of a market which generally did not allow any price increases as a result of a reduction of 6% in blue-collar wages in 2004. The positive organic growth was particularly driven by the damage control activities following an extension of the geographical coverage as well as an increase in medium-sized damage events.

The operating margin was 3.2% compared to 1.7% in 2004. This was a result of initiatives taken over the last couple of years including two acquisitions in 2004 which leveraged overheads and directed the business away from the difficult hospital sector.

The services provided by ISS Germany are predominantly cleaning services. However, also in Germany initial steps were taken to take the company in the direction of integrated facility services with the establishment of a dedicated key account sales organization as the first step.

The Group Restructuring Project included investments aimed at aligning capacity in the German organization to the market situation. Initiatives included a relocation of the head office and a trimming of overhead. Costs associated with the Group Restructuring Project and the phase out of hospital contracts amounted to DKK 69 million, which were included in Other income and expenses in 2005.

SWITZERLAND

In the Annual Report 2003, Switzerland was mentioned as one of the Group's operational challenges. Since then a number of initiatives have been taken and focus has been devoted to turning around the business.

After four years of negative organic growth, ISS Switzerland achieved organic growth of 2% in 2005, resulting from a strengthened sales organization which resulted in a number of contract wins for integrated facility services and improved contract retention. Furthermore, the business benefited from flooding in parts of Switzerland during the summer. The operating margin increased from 6.2% in 2004 to 6.8% as a result of continuing productivity gains.

Revenue stood at DKK 1,399 million, driven by 19% growth from acquisitions, of which seven were made during 2005. ISS Switzerland continued to develop its integrated facility services offering by recruiting experienced facility services managers. The efforts resulted in integrated facility services contract wins.

Other income and expenses included costs of DKK 10 million related to ISS Switzerland. This was primarily costs under the Group Restructuring Project, which among other things included restructuring in the landscaping business.

	2005	2004
Revenue, DKK millions	1,399	1,153
Organic growth, %	2	(2)
Operating margin, %	6.8	6.2
Employees at year-end	7,393	7,156

AUSTRIA

ISS Austria continued as one of the Group's steady contributors to organic growth. The combination of experienced sales and operations teams and the continued focus on developing a professional results-oriented sales organization produced organic growth of 11%. Accordingly, a double-digit organic growth rate was delivered for the fifth year in a row. Revenue increased by 19% to DKK 1,367 million of which 8% resulted from acquisitions.

In 2005, ISS Austria continued its development towards integrated facility services. The service range was expanded to include HVAC. The landscaping services in Austria were expanded geographically and indoor plants were added to the service offering. The operating margin was essentially unchanged year-on-year at 7.7%.

	2005	2004
Revenue, DKK millions	1,367	1,150
Organic growth, %	11	12
Operating margin, %	7.7	7.9
Employees at year-end	7,477	7,063

CENTRAL EASTERN EUROPE

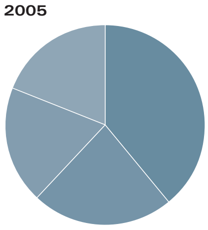
The Central Eastern Europe unit comprises the Czech Republic, Slovenia, Slovakia, Romania, Hungary and Croatia. Revenue was DKK 486 million, an increase of 4% compared to 2004. The increase was primarily due to acquisitions and positive currency adjustments. Organic growth was negative at 2%. The operating margin increased from 6.4% in 2004 to 7.8% through improvements in Slovenia, Slovakia, Romania and Croatia.

	2005	2004
Revenue, DKK millions	486	466
Organic growth, %	(2)	0
Operating margin, %	7.8	6.4
Employees at year-end	11,178	8,216

Costs related to the change of ownership of ISS and other non-recurring expenses amounted to DKK 1 million, which were included in Other income and expenses.

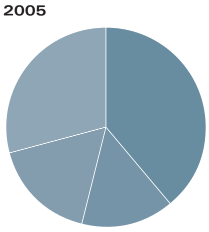
The Czech Republic Revenue in the Czech Republic increased by 6% to DKK 191 million, supported by currency adjustments of 7%. Organic growth continued to be negative at 5%, in part due to the loss of a number of significant contracts in 2004. To improve growth, a new sales organization was set up during the autumn. The operating margin declined compared to 2004, mainly due to a margin dilutive acquisition. The transformation towards integrated facility services continued with the addition of property services through the acquisition of a company specializing in technical facility management in the Czech Republic and Slovakia. Furthermore, a bolt-on acquisition strengthened the market position for cleaning services.

Revenue Central Eastern Europe 2005



- Czech Republic 39%
- Slovenia 23%
- Slovakia 19%
- Other 19%

Operating profit Central Eastern Europe 2005



- Czech Republic 39%
- Slovenia 15%
- Slovakia 17%
- Other 29%

Slovenia Revenue in ISS Slovenia was DKK 113 million, an increase of 4% compared to 2004. With flat currency impact, growth was attributable to organic growth. Intense price competition and the resulting loss of some large customers was more than compensated for by one-off jobs. Through continued focus on productivity and costs, the operating margin increased compared to last year.

Slovakia In 2005, revenue in ISS Slovakia was DKK 91 million, up 4% compared to last year. Currency adjustments added 4% to revenue growth and acquisitive growth was 4%. Negative organic growth of 4% was the consequence of price adjustments to retain a significant number of ISS Slovakia's largest contracts up for re-tender. To prevent further losses organizational changes were made in order to improve retention rates and strengthen the sales process. A negative development in the automotive segment was countered by efforts to manage labor costs and cost-cutting measures. Accordingly, the operating margin developed positively compared to the 2004 level. The movement towards integrated facility services continued with the addition of property services through the aforementioned acquisition of a company specializing in technical facility management operating in the Czech Republic and Slovakia. ISS Slovakia now counts two integrated facility services contracts in its contract portfolio. Two bolt-on acquisitions strengthened the market position for cleaning services.

Romania The business in Romania generated revenue of DKK 37 million in 2005, a growth of 2%. The activities were primarily based on a contract for the provision of pest control services to the City of Bucharest. In addition ISS Romania focused on developing its portfolio of business-to-business contracts. The operating margin was slightly above last year. In January 2006, ISS Romania expanded its services offering through an acquisition to include cleaning services.

Hungary Revenue in ISS Hungary declined from DKK 32 million in 2004 to DKK 31 million. The decline was due to negative organic growth of 3%. The operating margin increased over last year due to costs cutting initiatives and higher margin on new contracts.

Croatia Having started operations only a few years ago, ISS Croatia has grown revenue to DKK 22 million, up 6% over 2004 following organic growth of 5%. The operating margin declined compared to last year.

IRELAND

The positive momentum continued in Ireland in 2005. Solid organic growth and a further increase in the operating margin placed the Irish operation well ahead of the average ISS country performance. The 10% organic growth resulted from an expansion of sales resources, which helped to win new large contracts.

Revenue was DKK 463 million, an increase of 54%. Acquisition growth accounted for 44% and added landscaping services and property services to the service range.

The operating margin increased from 7.9% in 2004 to 8.7%, due to changes in the service mix and leverage of overhead costs.

	2005	2004
Revenue, DKK millions	463	300
Organic growth, %	10	9
Operating margin, %	8.7	7.9
Employees at year-end	2,950	1,998

BRAZIL

In 2005, the Brazilian currency appreciated versus Danish kroner leading to a positive currency adjustment of 18%. Revenue was DKK 458 million, an increase of 34% compared to 2004.

Despite the fact that the general economy was relatively weak in 2005, ISS Brazil achieved organic growth of 7%.

In spite of investments in restructuring and strengthening of the sales team, the operating margin increased to 5.5% from 5.4% in 2004.

	2005	2004
Revenue, DKK millions	458	341
Organic growth, %	7	1
Operating margin, %	5.5	5.4
Employees at year-end	12,571	12,381

HONG KONG

Until 2005, ISS's activities in Hong Kong and China were concentrated in Hong Kong with a small operation in Beijing. In April 2005, ISS expanded its business in China. See "New geographies" on page 72 of this report. ISS does not intend to merge its operations in China and Hong Kong. Accordingly, their results will be reported separately going forward.

	2005	2004
Revenue, DKK millions	434	355
Organic growth, %	8	1
Operating margin, %	6.1	5.1
Employees at year-end	7,475	5,033

Revenue increased 22% to DKK 434 million. After some years with negative or moderate organic growth, ISS Hong Kong reversed the trend and recorded organic growth of 8%. The growth was secured through new contract wins in cleaning and increases in volume and scope of contracts for hospital services. Acquisitions contributed 14% to revenue growth while currency adjustments were flat.

An important acquisition was made in Hong Kong late in the year, when ISS acquired the facility management company, EastPoint Group Ltd. of Hong Kong. EastPoint Ltd. has annual revenue of approximately DKK 250 million, and employs around 3,000 people. The acquisition was a significant step in the transition of ISS Hong Kong towards integrated facility services.

The operating margin increased from 5.1% in 2004 to 6.1% partly due to changes in the service mix following acquisitions but also through strengthened cost control in the existing business.

ISRAEL

Revenue in ISS Israel was flat at DKK 375 million. Organic growth was slightly negative at 1%, down from 9% in 2004. The decrease was attributable to one-off activity in the damage control segment boosting organic growth in 2004.

	2005	2004
Revenue, DKK millions	375	373
Organic growth, %	(1)	9
Operating margin, %	6.1	5.0
Employees at year-end	5,891	5,821

An acquisition, made to strengthen the geographical coverage of the cleaning services, contributed to 2% growth from acquisitions. After a dip in the operating margin to 5.0% in 2004 due to the impact of some non-recurring costs, the operating margin was 6.1% in 2005.

ISS divested its damage control activities in Israel in the latter part of 2005 to strengthen focus on the core facility services business. A loss of DKK 7 million incurred in connection with the divestment was included in Other income and expenses.

SINGAPORE

ISS Singapore increased revenue 19% to DKK 366 million in 2005. Organic growth was 4% after focus on sales efforts including cross-selling and key account management. After entering the event catering market in 2004, the catering platform was expanded into business-to-business catering through two acquisitions in 2005. Including the spill-over effect from an acquisition in 2004, revenue growth from acquisitions amounted to 13%.

The business environment was impacted by price pressure from customers as contracts were re-tendered and the cessation of a government subsidy supporting employment of people aged 40 or more. Together with margin dilution from acquisitions and increased food costs following the outbreak of bird flu in other Asian countries, this affected the operating margin which decreased from 6.6% in 2004 to 5.7% in 2005.

	2005	2004
Revenue, DKK millions	366	307
Organic growth, %	4	0
Operating margin, %	5.7	6.6
Employees at year-end	4,693	3,818

AUSTRALIA

Operations in Australia generated revenue of DKK 338 million in 2005, an increase of 40%. Previously, ISS Australia had been focused on pest control and washroom services, but acquisitions made during 2005 expanded the service offering into clean-room, cleaning and landscaping services. Further acquisitions strengthened the geographical coverage of washroom services. In total, acquisitions contributed 30% to revenue growth.

The broader service range and focus on the commercial market of pest control contributed to organic growth of 6%. The operating margin was 11.8%. Acquisitions had an overall dilutive effect on the margin but the increased volume leveraged overhead costs.

As part of the Group Restructuring Project, ISS Australia consolidated its route-based organization by joining locations and reducing headcount. This resulted in costs of approximately DKK 7 million, which were recognized in Other income and expenses.

In December 2004, ISS was invited to participate in a venture headed by DB Capital Partners to take Australian based Tempo Services Ltd. (“Tempo”) private. After this was completed in April 2005, ISS held a 49% stake in Tempo. ISS’s share of the financial results for 2005 is included in the consolidated financial statements as an associated company. In February 2006, ISS announced the acquisition of the remaining shares in Tempo. Tempo provides a range of services within e.g. cleaning, catering, building service and security. The operating margin of Tempo is lower than ISS’s existing business in Australia and is expected to be margin dilutive in 2006. Following the acquisition, ISS will have annual revenue of more than DKK 3.2 billion and 21,000 employees in Australia.

	2005	2004
Revenue, DKK millions	338	242
Organic growth, %	6	4
Operating margin, %	11.8	11.7
Employees at year-end	860	487

PORTUGAL

ISS Portugal continued its positive trend. Double-digit growth rates were sustained in 2005 taking revenue to DKK 283 million. Organic growth boosted revenue by 12% partly due to new contracts and partly due to one-off jobs. ISS Portugal took steps to expand its service offering through acquisitions within office support and pest control. Furthermore, acquisitions were made to add density to the provision of cleaning services and technical maintenance.

	2005	2004
Revenue, DKK millions	283	226
Organic growth, %	12	19
Operating margin, %	7.0	6.9
Employees at year-end	4,058	2,746

Although the acquired companies overall were margin dilutive, the operating margin improved to 7.0% due to the increased activity level which helped to leverage overhead costs.

GREECE

ISS Greece generated revenue of DKK 208 million, an increase of 7% over last year. Acquisitions accounted for 10% and strengthened the provision of cleaning services while at the same time adding competencies within pest control and landscaping services. In addition, the Group's washroom services concept was added to the service offering in 2005. Organic growth was negative by 3% because the loss of a significant manpower contract more than off-set new contract wins in cleaning services. The operating margin increased from 5.8% in 2004 to 6.1% in part due to a change in service mix following an acquisition.

	2005	2004
Revenue, DKK millions	208	193
Organic growth, %	(3)	5
Operating margin, %	6.1	5.8
Employees at year-end	1,490	1,602

ITALY

Revenue in ISS Italy increased 5% to DKK 202 million for the year, positively affected by organic growth of 2%. Contract losses in cleaning were more than compensated for by way of increased business from pest control services. Management primarily focused on consolidating and integrating acquisitions made in 2004 together with focus on bringing the existing cleaning and pest control divisions closer together. This resulted in improved profitability with an operating margin increase from 6.6% in 2004 to 10.9%.

	2005	2004
Revenue, DKK millions	202	192
Organic growth, %	2	(4)
Operating margin, %	10.9	6.6
Employees at year-end	590	616

THAILAND

The operation in Thailand continued the positive performance trend from 2004 and reported 18% organic growth. This was accomplished by new contract wins and volume increases on existing contracts. The development of an integrated facility services offering continued through the acquisition of a pest control company as well as introduction of the Group's dust control concept. Revenue ended the year at DKK 115 million, up 24% compared to last year of which acquisitions contributed 6%. The operating margin decreased marginally from 6.9% in 2004 to 6.7% due to an adjustment in minimum wages which could not be fully compensated for.

	2005	2004
Revenue, DKK millions	115	93
Organic growth, %	18	22
Operating margin, %	6.7	6.9
Employees at year-end	7,456	7,726

INDONESIA

ISS Indonesia continued to strengthen its sales department and reorganized its operations in a site-based and a route-based team. Together with a customer retention rate of more than 96% obtained through persistent focus on quality and customer loyalty, this contributed to reinforcing ISS Indonesia's status as one of the Group's front-runners in terms of organic growth. With 45% organic growth in 2005, the five-year compound annual organic growth rate stood at 44%.

With negative currency adjustments of 9%, 2005 revenue was DKK 92 million. The operating margin was maintained at 9.4%.

	2005	2004
Revenue, DKK millions	92	69
Organic growth, %	45	31
Operating margin, %	9.4	9.4
Employees at year-end	11,700	6,977

ARGENTINA

Shortly after ISS's establishment in Argentina in 2000, a difficult economic situation developed into a recession with a significant depreciation of the currency and social unrest. Since then ISS has worked to restructure the business and to add scale to its operations. The operating margin was 1.7%.

The Argentinean operation increased revenue to DKK 77 million in 2005, almost doubling from 2004. Acquisitions made in 2004 accounted for 61%. Organic growth was 35%, impacted by increases in the minimum wage of 22% in July 2005. The wage increase resulted in some contract losses but this was more than compensated for by contract wins.

As part of the Group Restructuring Project, ISS Argentina incurred costs of approximately DKK 2 million related to a restructuring of the contract portfolio. The costs were recognized in Other income and expenses.

	2005	2004
Revenue, DKK millions	77	39
Organic growth, %	35	50
Operating margin, %	1.7	(2.8)
Employees at year-end	2,171	2,304

POLAND

	2005	2004
Revenue, DKK millions	72	67
Organic growth, %	(4)	5
Operating margin, %	3.7	4.3
Employees at year-end	1,834	1,924

Revenue increased 8% to DKK 72 million. Positive currency adjustments contributed 11% while organic growth was negative by 4%, primarily due to the loss of two significant contracts. Signing a contract with a hospital, ISS commenced providing catering services at the end of the year.

The operating margin of 3.7% was lower than the previous year as ISS Poland incurred costs related to management changes.

MALAYSIA

	2005	2004
Revenue, DKK millions	70	69
Organic growth, %	0	(2)
Operating margin, %	7.3	7.6
Employees at year-end	2,292	2,392

Revenue increased slightly to DKK 70 million. Organic growth was approximately flat due to loss of some large contracts at the end of 2004 and in the beginning of 2005. During the year, a branch of ISS Malaysia was transferred to ISS Brunei, thereby lowering 2005 revenue by 2%. Catering was added to the service range through an acquisition. The operating margin declined from 7.6% to 7.3% following internal restructurings and investments to strengthen the organization.

CHILE

	2005	2004
Revenue, DKK millions	58	19
Organic growth, %	52	-
Operating margin, %	6.7	5.2
Employees at year-end	2,443	1,582

Operations in Chile commenced in July 2004 with an acquisition within cleaning. During 2005, another acquisition added office support services and strengthened the provision of cleaning services. Together with organic growth of 52%, this brought revenue to DKK 58 million. The growth was the result of increased activities with existing customers as well as new contract wins. The operating margin increased from 5.2% in 2004 to 6.7% driven by efforts to improve efficiency and leverage overheads.

SRI LANKA

ISS activities in Sri Lanka are managed through a joint venture. Consequently, ISS consolidates half of the operation in the consolidated financial statements. Revenue attributable to ISS in 2005 was DKK 20 million, equivalent to 18% growth measured in Danish kroner of which organic growth and currency adjustments accounted for 17% and 1%, respectively. The operating margin recovered to 3.7% after being negatively affected by a non-recurring VAT liability in 2004.

	2005	2004
Revenue, DKK millions	20	17
Organic growth, %	17	27
Operating margin, %	3.7	(0.0)
Employees at year-end	4,960	5,650

BRUNEI

Organic growth was 8% through an increase in governmental work and one-off jobs. Together with the impact of the transfer of a branch from ISS Malaysia, total revenue growth was 18% totalling DKK 16 million. The operating margin at 20.9% was a decline primarily due to a different service mix.

	2005	2004
Revenue, DKK millions	16	13
Organic growth, %	8	4
Operating margin, %	20.9	24.5
Employees at year-end	271	161

URUGUAY

ISS established a country organization in Uruguay in 2004 through an acquisition. In 2005, revenue in Uruguay amounted to DKK 5 million with organic growth of 15%. The operating margin was 4.5%, in part affected by an increase in minimum wages which could not be fully compensated for.

	2005	2004
Revenue, DKK millions	5	2
Organic growth, %	15	21
Operating margin, %	4.5	10.0
Employees at year-end	209	260

NEW GEOGRAPHIES

In line with Route 101, ISS established a presence in six new countries including mainland China during 2005. As expected, the new countries generally had an operating margin below Group average and the new establishments should be seen as investments in the future.

Turkey ISS established a platform in Turkey through the acquisition of the majority of the shares in Proser S.A., the largest private cleaning and facility services provider in Turkey. With approximately 4,200 employees, Proser S.A. operates in 17 cities throughout Turkey providing mainly cleaning services but also offering office support, catering and technical maintenance. Performing in line with expectations, ISS's revenue in Turkey amounted to DKK 298 million in 2005. The operating margin was 5.7%.

New Zealand ISS strengthened its market position in Oceania by expanding into New Zealand through an acquisition. The company acquired has nationwide coverage with branches in nine locations including Auckland, Christchurch and Wellington. Revenue in 2005 amounted to DKK 55 million. The operating margin was 2.8%, impacted by costs associated with new contract start-ups.

China ISS expanded its business in China in April 2005 through the establishment of a joint venture and the acquisition of a majority interest in Hongrun, the largest private cleaning company in China. Hongrun operates in 70 cities spread across 15 out of China's 22 provinces, and employs more than 7,000 people. Revenue in 2005 amounted to DKK 48 million showing significant growth since the acquisition and more than 1,000 new employees have been added since the take-over. Investments are currently being made in training, education and systems. The operating margin of 3.5% was slightly below expectations due to a tough competitive environment in the retail sector and increases in the minimum wage which could not be fully compensated for. As described above, ISS does not plan to merge its operations in China and Hong Kong. Accordingly, their results will be reported separately going forward.

Estonia ISS entered Estonia in September 2005 with the acquisition of 51% of the shares of ESS Haldus Group. Haldus, employing some 1,500 employees, is a service provider operating in the areas of primarily real estate management and cleaning. Revenue amounted to DKK 33 million and the operating margin of the Estonian activities was 3.6% in its first period under ISS-ownership.

India During 2005, ISS took an important step in expanding its operations globally when ISS established a presence in India via the acquisition of Cleantec Hospitality Services Private Ltd. A platform for further growth, Cleantec offers cleaning services and office support, but also catering and guesthouse management. The company which is based in Mumbai operates in several major cities. The activities in India generated revenue of DKK 13 million in 2005.

Russia Operations in Russia commenced in January 2005 through the take-over of a service company providing cleaning services to a number of blue-chip companies and property management companies from its offices in Moscow, St. Petersburg and Kazan. Revenue in 2005 was DKK 24 million. As expected, the operating margin was negative.

DISCONTINUED BUSINESSES

It is ISS' strategy to further focus the business towards integrated facility services. In line with this strategic direction, ISS decided to free up management resources in 2005 by discontinuing its health care activities and its business in Japan.

Health Care As described on page 7 of this report, ISS divested its Health Care operations in 2005. From January 1 to January 31, 2005, ISS consolidated its 100% interest in ISS Health Care in its consolidated financial statement. Effective February 1, ISS Health Care and ISS's 49% stake in CarePartner AB was taken over by a joint venture, Aleris Holding AB ("Aleris"), set up by EQT III Limited, ISS and Aleris's management. Subsequently, ISS consolidated its 45% stake in the joint venture on a proportional basis in the period February 1 – June 30, 2005, when EQT III Limited took over ISS's stake and assumed full control of the joint venture.

In 2005, ISS consolidated revenue of DKK 310 million from ISS Health Care and operating profit before other items of DKK 38 million in its consolidated financial statements. A total net gain from the divestment of approximately DKK 237 million was recognized in Other income and expenses.

Japan ISS's operations in Japan were based on a 50/50 joint venture with Mitsui & Co Ltd. For a number of years, the business had not performed according to ISS's expectations. Consequently, ISS decided to discontinue the Japanese business in September 2005 by selling its 50% stake of the joint venture to Mitsui & Co Ltd.

Thus, in 2005 ISS consolidated 50% of the joint venture in its consolidated financial statements for the first eight months of 2005. Revenue was DKK 49 million and the operating margin was 3.3%.

A gain of DKK 10 million related to the sale of the stake in the Japanese joint venture was recognized in the income statement for 2005 in Other income and expenses.

"A Drop" – Oil on canvas – March 2, 2006.

Financial Statements

Signatures to the Annual Report

COPENHAGEN, APRIL 6, 2006

The Board of Directors and the Executive Management have today discussed and approved the Annual Report 2005 of ISS A/S. The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports.

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's financial position at December 31, 2005 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 2005.

EXECUTIVE MANAGEMENT

Steen Parsholt
Managing Director

BOARD OF DIRECTORS

Leif Östling
Chairman

Richard Sharp
Vice-Chairman

Ole Andersen

Sanjay Patel

Jørgen Lindegaard *)

Christoph Sander *)

*) Elected as member of the Board on an Extraordinary General Meeting on April 6, 2006.

Auditor's Report

COPENHAGEN, APRIL 6, 2006

TO THE SHAREHOLDER OF ISS A/S

We have audited the Annual Report 2005 of ISS A/S prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports.

The Annual Report is the responsibility of the Company's Board of Directors and Executive Management. Our responsibility is to express an opinion on the Annual Report based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with Danish and International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual Report. An audit also includes assessing the accounting policies used and significant estimates made by the Board of Directors and the Executive Management, as well as evaluating the overall Annual Report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

OPINION

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's financial position at December 31, 2005 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 2005 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports.

KPMG C. Jespersen
Statsautoriseret Revisionsinteressentskab

Finn L. Meyer
State Authorized Public Accountant

Jesper Ridder Olsen
State Authorized Public Accountant

Financial Review

The consolidated financial statements of ISS as of and for the year ending December 31, 2005 have been prepared in accordance with the International Financial Reporting Standards (IFRS). These are ISS's first IFRS consolidated financial statements and IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied. The applied accounting policies are described in note 1 and the impact of adopting IFRS is discussed in note 37 to the consolidated financial statements.

INCOME STATEMENT

Revenue in total operations increased DKK 6,085 million, or 15%, from DKK 40,355 million in 2004 to DKK 46,440 million in 2005, primarily due to net growth from acquisitions and divestments of 11% and organic growth of 3%. Revenue attributable to the continuing operations increased DKK 6,423 million, or 16%, from DKK 39,658 million in 2004 to DKK 46,081 million in 2005.

Northern Europe revenue increased DKK 2,389 million, or 13%, from DKK 17,949 million in 2004 to DKK 20,338 million in 2005. The increase was related primarily to 12% growth from acquisitions, of which the acquisition of the Engel Group, a Finnish facility services company acquired in July 2004, contributed the most. Organic growth increased revenue by approximately DKK 0.4 billion, or 2%, mainly due to organic growth in the United Kingdom, Norway, Denmark and Ireland.

Continental Europe revenue increased DKK 3,432 million, or 17%, from DKK 19,771 million in 2004 to DKK 23,203 million in 2005. The increase was due primarily to 15% growth from acquisitions, of which the acquisition of Grupo Unica, a Spanish provider of cleaning services acquired in July 2004, contributed the most. Following the decision to discontinue the hospital cleaning services business in Germany through a phase-out, revenue from this business is excluded in the calculation of organic growth. ISS estimates that excluding the revenue effect of the phase-out of the German hospital cleaning services business, organic growth increased revenue by approximately DKK 0.8 billion, or 4%, which primarily stemmed from organic growth in France, Spain, Austria and Belgium.

Overseas revenue increased by DKK 602 million, or 31%, from DKK 1,938 million in 2004 to DKK 2,540 million in 2005 (including the discontinued operations in Japan, Overseas

Revenue growth

Amounts in DKK billions	Northern Europe		Continental Europe		Overseas		Discontinued operations		Total ISS [1]	
Revenue 2004	**17.9**	**100%**	**19.8**	**100%**	**1.9**	**100%**	**0.7**	**100%**	**40.4**	**100%**
Phase-out of German hospital cleaning services business	–	–	(0.2)	(1)%	–	–	–	–	(0.2)	(0)%
Foreign currency adjustments	0.0	0 %	0.0	0 %	0.0	4 %	(0.0)	(2)%	0.2	1 %
Acquisitions	2.1	12 %	2.9	15 %	0.3	19 %	0.0	5 %	5.3	13 %
Divestments	(0.2)	(1)%	(0.1)	(1)%	(0.0)	(0)%	(0.4)	(55)%	(0.7)	(2)%
Organic growth	0.4	2 %	0.8	4 %	0.2	8 %	0.0	0 %	1.3	3 %
Revenue 2005 [1]	**20.3**	**113 %**	**23.2**	**117 %**	**2.5**	**131%**	**0.4**	**48%**	**46.4**	**115 %**

[1] Due to rounding, the sum of the growth components may differ from the total figure.

Organic growth

ISS uses estimates of its organic growth in analyzing its revenue, including in the analysis set forth below. Organic growth is intended to represent the percentage change in ISS's revenue as compared to the prior period, excluding changes in revenue attributable to businesses acquired or divested and the effect of changes in foreign exchange rates. Organic growth is not a measure of financial performance under Danish GAAP or IFRS and should not be considered as a substitute for operating profit, net profit, cash flow or other financial measures computed in accordance with Danish GAAP or IFRS or as a measure of ISS's results of operations.

In calculating organic growth, ISS applies two different methodologies with respect to the revenue generated by acquired businesses, based upon the size of the acquisitions.

Acquisitions of businesses with reported annual revenue of less than DKK 50 million (EUR 7 million). Acquisitions of businesses with reported annual revenue of less than DKK 50 million (EUR 7 million) and which do not establish an ISS presence in a new jurisdiction 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 from the date of acquisition. Accordingly, for such acquisitions, ISS calculates organic growth by including revenue generated by these acquired businesses in the current period, beginning with the date of acquisition. To establish a comparable base, revenue of the acquired businesses for the comparable prior period is added to ISS's actual prior period consolidated revenue. The prior period revenue is generally based on internal management accounts of the acquired businesses and is subject to adjustments, on a case by case basis, to take into account additional information, available at the time of acquisition, regarding known material positive or negative changes in the acquired businesses, such as contract gains and losses. Such information may come from interim reports, management accounts of the acquired businesses or other sources. The difference between ISS's actual current period consolidated revenue and its adjusted prior period consolidated revenue is deemed by ISS to be its organic growth, which is expressed as a percentage calculated by dividing organic growth calculated in this manner by ISS's actual prior period consolidated revenue. The calculations of organic growth are based on the unaudited internal management accounts of the acquired businesses and related estimates. These organic growth numbers have not been, and cannot be, audited.

Acquisitions of businesses with reported annual revenue of DKK 50 million (EUR 7 million) or more. Prior to January 1, 2005, ISS used the methodology it applies to acquisitions of businesses with reported annual revenue of less than DKK 50 million (EUR 7 million) to acquisitions of businesses with reported annual revenue of DKK 50 million (EUR 7 million) or more, as well as to acquisitions that establish an ISS presence in a new jurisdiction. Since that date, ISS has treated these acquisitions differently. Under the new approach, ISS excludes from its calculation of organic growth any growth generated by such larger acquisitions during the first 12 months of ISS ownership. The determination of current period revenue is straightforward for acquisitions that have not been integrated into ISS's operations, and the revenue from these separate entities is disregarded in calculating organic growth. The determination of current period revenue is more complex for acquired businesses that have been integrated into ISS. In relation to integrated businesses ISS estimates current period revenue based on internal management reports, and exercises discretion in allocating revenue between the integrated and pre-existing operations, which may significantly affect the organic growth calculation. These organic growth numbers have not been, and cannot be, audited.

ISS calculates organic growth by excluding revenue generated by divested businesses from its current period revenue. Such revenue is derived from ISS's unaudited internal management accounts.

revenue was DKK 2,016 million in 2004). The increase was due primarily to 18% growth from acquisitions, of which the acquisition of Manchester Property Care Ltd., New Zealand, contributed the most. Organic growth increased revenue by approximately DKK 0.2 billion, or 8%, which primarily stemmed from organic growth in Brazil, Hong Kong, Australia, Indonesia and Thailand.

In February 2005, ISS acquired the remaining 51% stake in CarePartner and subsequently sold all its interest and 100% of its Swedish health care business to a newly formed joint venture entity, now named Aleris Holding AB ("Aleris"), owned by EQT III Limited, ISS and Aleris's management. Results from ISS's 45% interest in this joint venture were consolidated on a proportional basis in ISS's financial statements from February 2005 until the end of June 2005, when ISS sold this 45% interest to EQT III Limited.

Together with the divestment of ISS's interest in a 50/50 percent joint venture in Japan, the Health Care operations were reported as discontinued operations in ISS's consolidated financial statements for the year ended December 31, 2005.

Revenue from the discontinued operations was DKK 359 million in 2005.

Staff costs increased DKK 3,996 million, or 15%, from DKK 26,596 million in 2004 to DKK 30,592 million in 2005. This increase was due primarily to an increase in the overall number of employees as a result of acquisitions and organic growth. Staff costs as a percentage of revenue remained unchanged at 65.9%.

Cost of sales increased DKK 607 million, or 19%, from DKK 3,146 million in 2004 to DKK 3,753 million in 2005. This increase was due primarily to acquisitions and organic growth. Cost of sales as a percentage of revenue increased from 7.8% in 2004 to 8.1% in 2005 due to increased revenue from services with higher average cost of sales such as pest control, catering and landscaping.

Other operating expenses increased DKK 1,050 million, or 14%, from DKK 7,736 million in 2004 to DKK 8,786 million in 2005. This increase was due primarily to acquisitions and organic growth. Other operating expenses as a percentage of revenue decreased from 19.2% in 2004 to 18.9% in 2005.

Depreciation and amortization increased DKK 42 million, or 7%, from DKK 617 million in 2004 to DKK 659 million in 2005. Depreciation and amortization excluding amortization of intangibles related to acquisitions remained essentially unchanged, as a percentage of revenue, at 1.4% in 2005 compared to 1.5% in 2004.

Operating profit before other items for the total operations increased DKK 390 million, or 17%, from DKK 2,260 million in 2004 to DKK 2,650 million in 2005, due to the factors discussed above. Operating profit before other items as a percentage of revenue, i.e. the operating margin, was 5.7% in 2005 compared to 5.6% in 2004. Operating profit before other items from the continuing operations increased by DKK 416 million, or 19%, to DKK 2,610 million compared to DKK 2,194 million in 2004. The operating margin in the continuing business was 5.7% in 2005 compared to 5.5% in 2004.

In Northern Europe the operating margin was 6.4% in 2005 compared to 6.2% in 2004. The improvement stemmed from better performance in Denmark and Sweden compared with 2004. In addition, the operating margin in Norway increased due to a settlement of a defined benefit plan. The increase was partially offset by a decrease in the operating margin in Finland.

Operating results [1]

	Revenue DKK millions			Operating profit before other items DKK millions			Operating margin	
	2005	2004	Change	2005	2004	Change	2005	2004
Northern Europe	20,338	17,949	13 %	1,306	1,113	17 %	6.4 %	6.2 %
Continental Europe	23,203	19,771	17 %	1,437	1,189	21 %	6.2 %	6.0 %
Overseas	2,540	1,938	31 %	152	119	28 %	6.0 %	6.1 %
Discontinued operations	359	697	(48)%	40	66	(39)%	11.1 %	9.5 %
Corporate	–	–		(285)	(227)	(26)%	(0.6)%	(0.6)%
Group	**46,440**	**40,355**	**15 %**	**2,650**	**2,260**	**17 %**	**5.7 %**	**5.6 %**

[1] ISS has prepared its consolidated financial statements for 2005 in accordance with the International Financial Reporting Standards (IFRS). Comparative figures for 2004 have been restated to IFRS and consequently may differ from the figures published in the Annual Report 2004, which was prepared in accordance with Danish GAAP. The applied accounting policies are described in note 1 to the consolidated financial statements and the impact of adopting IFRS is discussed in note 37 to the consolidated financial statements.

In Continental Europe, the operating margin was 6.2% in 2005 compared to 6.0% in 2004. Improvements in the operating margin in Belgium, Germany, Spain, Austria and Switzerland were partially offset by a decrease in the operating margin in France.

In Overseas, the operating margin declined from 6.1% in 2004 to 6.0% in 2005. The operating margin was diluted due to below average operating margins in China, India and New Zealand, where operations were established through acquisitions in 2005.

Corporate overhead costs remained relatively unchanged at 0.6% of revenue.

Other income and expenses, net for the total operations was a net expense of DKK 37 million in 2004 and a net expense of DKK 286 million in 2005. ISS's gain on the sale of its Health Care operations was included in Other income and expenses in 2005. The sale took place in two steps. When ISS sold its Swedish health care business and its 49% interest in CarePartner to a joint venture between ISS and EQT III Limited, ISS realized a gain of DKK 123 million. At the end of June 2005, when ISS sold its interest in this joint venture to EQT III Limited, ISS realized a further gain of DKK 114 million. In the continuing operations, Other income and expenses, net, amounted to a net expense of DKK 533 million in 2005, of which DKK 427 million were costs related to the change of ownership of ISS and the Group Restructuring Project. In 2004, Other income and expenses, net, amounted to a net expense of DKK 37 million.

Costs related to the change of ownership of ISS, including professional and advisory fees, a stay-on bonus for the Executive Management Board and certain key employees of ISS Management and the settlement of the Executive Management Board's bonus accounts amounted to DKK 203 million and were recognized in Other income and expenses.

In the autumn of 2005, ISS initiated a Group Restructuring Project comprising certain organizational and structural changes to reduce ongoing costs in a number of countries. The project included physical relocations, termination of leaseholds, redundancy payments, and contract restructuring. The Board of Directors approved an expenditure of DKK 250 million, of which DKK 224 million was recognized in Other income and expenses in 2005. The remaining DKK 26 million is expected to be expensed in 2006.

ISS's decision to discontinue its hospital cleaning services business in Germany through a phase-out of the remaining customer contracts resulted in a DKK 35 million provision for termination costs, primarily redundancy payments. A downsizing of ISS's damage control activities in Denmark, Norway and Sweden and the divestment of damage control activities in Israel and Sweden led to a loss of DKK 59 million.

Also included in Other income and expenses was a gain of DKK 33 million resulting from the sale of ISS's interest (PFI-stake) in Catalyst Healthcare Holdings Ltd. which operates certain facilities at Calderdale Royal Hospital in the United Kingdom.

Integration costs decreased in 2005 to DKK 68 million from DKK 142 million in 2004. Integration costs in 2005 primarily related to redundancy payments and rental obligations with respect to acquired companies in Belgium, China, Finland, France and Germany.

Operating profit increased DKK 215 million, or 10%, from DKK 2,081 million in 2004 to DKK 2,296 million in 2005 due to the factors discussed above.

Operating profit in the continuing operations decreased DKK 7 million to DKK 2,009 million in 2005 from DKK 2,016 million in 2004, and was negatively affected by the costs related to the change of ownership of ISS and the Group Restructuring Project discussed above.

Share of profit from associates decreased DKK 18 million, or 55%, from DKK 33 million in 2004 to DKK 15 million in 2005. This decrease was due primarily to the sale of ISS's 49% interest in CarePartner to a newly formed joint venture entity in which ISS retained a 45% interest. As a result of the sale, the results from CarePartner were no longer included in share of profit from associates, but were consolidated on a proportionate basis in ISS's financial statements from February 2005. Accordingly, the share of profits from CarePartner included in share of profit from associates decreased from DKK 23 million in 2004 to DKK 1 million in 2005. The decrease was partially offset by the results of the investment in Australian-based Tempo Services Ltd. held through a 49% stake in Pacific Services Solutions.

Net finance costs increased DKK 186 million, or 56%, from DKK 335 million in 2004 to DKK 521 million in 2005, due primarily to higher net debt resulting from borrowings to fund dividend payments of approximately DKK 7 billion as well as from financing acquisitions.

Historically, ISS has swapped the interest on its Medium Term Notes from fixed into floating rates. At the end of June 2005, ISS settled the interest rate swaps relating to ISS Global's EUR 850 million 2010 Medium Term Notes and partially settled the interest rate swaps relating to ISS Global's EUR 500 million 2014 Medium Term Notes. The closing of these swaps generated proceeds of DKK 782 million, of which DKK 268 million was accrued interest. A gain of DKK 514 million will be recognized in ISS's income statement under finance costs over the remaining term of the Medium Term Notes. The recognized gain in the 2005 income statement amounted to DKK 45 million.

Profit before tax and impairment/amortization of intangibles increased DKK 11 million, or 1%, from DKK 1,779 million in 2004 to DKK 1,790 million in 2005, as a result of the foregoing factors.

Profit before tax and impairment/amortization of intangibles in the continuing operations decreased DKK 204 million, or 12%, from DKK 1,717 million to DKK 1,513 million, negatively impacted by the aforementioned costs related to the change of ownership of ISS, the Group Restructuring Project and higher financing costs.

Income taxes decreased DKK 45 million, or 8%, from DKK 554 million in 2004 to DKK 509 million in 2005. The effective tax rate decreased to 28% in 2005 from 31% in 2004, mainly due to a decrease in the weighted average statutory tax rate and the effect of a tax free gain regarding the sale of the Health Care operations, net of costs related to the change of ownership of ISS and related financing.

Until 2004, ISS maintained joint taxation with its wholly owned Danish subsidiaries and certain of its wholly owned foreign subsidiaries. Due to changes in the applicable laws, ISS withdrew from this joint taxation arrangement with its foreign subsidiaries with effect from January 1, 2005. As a result of this withdrawal, ISS is subject to re-taxation of tax-deductible losses realized in its foreign jointly taxed subsidiaries. However, according to the applicable transitional rules, ISS may repay this tax liability gradually over future years as these foreign subsidiaries achieve positive taxable income. Because ISS has historically recognized provisions under deferred taxes to cover the eventual re-taxation, ISS's withdrawal from joint taxation with its foreign subsidiaries is not expected to lead to a higher income tax expense in its income statement.

ISS is jointly taxed with all Danish resident affiliates. The Danish income tax payable is allocated between the jointly taxed Danish companies on basis of their respective shares of taxable income (full absorption including reimbursement of tax deficits).

Profit before impairment/amortization of intangibles increased DKK 56 million, or 5%, from DKK 1,225 million in 2004 to DKK 1,281 million in 2005.

Profit before impairment/amortization of intangibles in the continuing operations decreased DKK 153 million, or 13%, from DKK 1,170 million in 2004 to DKK 1,017 million in 2005, negatively impacted by the aforementioned costs related to the change of ownership of ISS, the Group Restructuring Project and higher financing costs, net of tax.

Goodwill impairment and write-down was DKK 191 million in 2005 compared to DKK 344 million in 2004. In 2005, a write-down of DKK 80 million was primarily related to the winding up and divestment of part of the damage control activities in Sweden. Following impairment tests, impairment charges during the same period consisted of DKK 93 million relating to ISS's business in Germany, DKK 8 million relating to ISS's business in Italy and DKK 10 million relating to ISS's damage control activities in the Netherlands. For the year ended December 31, 2004, goodwill impairment and write-down was DKK 344 million of which DKK 38 million related to write-downs in connection with divestments and DKK 306 million related to goodwill impairment, mainly in connection with ISS's activities in Germany.

Amortization of customer contracts increased DKK 123 million, from DKK 78 million in 2004 to DKK 201 million in 2005. Customer contract portfolios and related customer relationships are separated from goodwill for acquisitions carried out after January 1, 2004. In 2005 ISS incurred charges with respect to the amortization of customer contract portfolios and related customer relationships associated with 197 acquisitions, while the comparative charges for 2004 related to 95 acquisitions.

Tax effect of goodwill impairment and write-down and amortization of customer contract portfolios and related customer relationships, which is presented separately in the income statement to show the effective tax percentage before impairment/amortization of intangibles, was DKK 34 million in 2004 and DKK 59 million in 2005. This increase mainly related to the increase in amortization of customer contract portfolios and related customer relationships.

Net profit increased DKK 111 million, or 13%, from DKK 837 million in 2004 to DKK 948 million in 2005 as a result of the foregoing factors. In 2005, DKK 935 million was attributable to the equity holders of ISS and DKK 13 million to minority interests. In 2004, the comparative figures were DKK 817 million and DKK 20 million, respectively.

Net profit from the continuing operations decreased DKK 98 million, or 13%, from DKK 783 million to DKK 685 million, negatively impacted by the aforementioned costs related to the change of ownership of ISS, the Group Restructuring Project and higher finance costs, net of tax.

Adjusted EBITDA As a result of the foregoing factors, adjusted EBITDA increased DKK 432 million, or 15%, from DKK 2,877 million in 2004 to DKK 3,309 million in 2005.

CASH FLOW STATEMENT

Cash flow from operating activities in 2005 was a net inflow of DKK 1,623 million compared to DKK 1,946 million in 2004.

During 2005, changes in working capital was a cash outflow of DKK 234 million, compared to an inflow of DKK 186 million in 2004. The difference mainly derives from higher trade receivables partly compensated by higher trade payables. The increase in trade receivables was partly due to an expected increase in debtor days as a result of organic growth in Continental European countries operating with debtor days above Group average and partly due to weaker cash collection, in part due to the fact that the year ended on a weekend causing some customer payments to be made or received in 2006.

Interest paid, net, represented a cash inflow of DKK 25 million. Historically, ISS has swapped the interest on its Medium Term Notes from fixed into floating rates. At the end of June 2005, ISS settled the interest rate swaps relating to ISS Global's EUR 850 million 2010 Medium Term Notes and partially settled the interest rate swaps relating to ISS Global's EUR 500 million 2014 Medium Term Notes. This resulted in a net cash inflow of DKK 782 million, of which DKK 268 million were accrued interest. This was offset by the September 2005 coupon payment of DKK 301 million on the notes expiring in September 2010 and the December 2005 coupon payment of DKK 168 million on the notes expiring in December 2014. Interest paid used DKK 326 million of cash in 2004. Due to the increased indebtedness of ISS, a significant part of cash flows will be used to pay interest going forward.

Income taxes paid, net, amounted to DKK 898 million in 2005 compared with DKK 602 million in 2004. This increase was mainly due to additional tax payments of approximately DKK 95 million relating to the years 2001-2004 and a tax payment of DKK 160 million resulting from an advanced payment of tax on interest rate swaps.

Integration costs paid amounted to DKK 128 million in 2005 compared to DKK 45 million in 2004. The costs related mainly to acquisitions in Belgium, China, Finland, France, Germany and Spain.

Cash outflow from changes in provisions increased DKK 89 million to DKK 177 million in 2005 compared to DKK 88 million in 2004, partly due to a one-time transfer of a pension liability to an independent insurance company in Norway, but primarily due to a payment arising from a pension deficit in the pension schemes in the United Kingdom.

Payments related to Other income and expenses, net, were DKK 277 million, which was an increase of DKK 213 million compared with 2004. The increase was primarily due to payments of DKK 160 million related to the change of ownership of ISS and DKK 65 million related to the Group Restructuring Project.

Cash flow from investing activities represented a net outflow of DKK 1,852 million in 2005. During this period, acquisitions of businesses used DKK 2,570 million in cash. These comprised of a number of smaller acquisitions, including a facility management company in Hong Kong and catering and office support companies in Norway. This outflow was offset by proceeds from divestments of DKK 845 million, primarily DKK 778 million related to the sale of the Health Care operations and the joint venture stake in Japan. Investments in intangible assets and property, plant and equipment, net, (which excludes goodwill and customer contract portfolios and related customer relationships) were DKK 549 million during the period, representing 1.2% of revenue. Investments in financial assets, net, were an inflow of DKK 422 million of cash in 2005. This inflow was primarily due to the sale of marketable securities.

Net cash flow from investing activities represented an outflow of DKK 5,001 million in 2004. During this period, acquisitions of businesses used DKK 3,853 million of cash. These comprised a number of smaller acquisitions, including a facility management company and a catering company in the United Kingdom and two larger acquisitions of Engel Group in Finland and Grupo Unica in Spain. In 2004, Investments in intangible assets and property, plant and equipment, net, were DKK 583 million, equivalent to 1.4% of revenue, reflecting relatively high investments primarily due to contract start-ups in the French waste management business. Investments in financial assets, net, represented the investment of DKK 601 million of surplus cash.

Cash flow from financing activities was a net outflow of DKK 1,600 million in 2005. This amount reflected DKK 5,859 million of cash received following an increase in indebtedness. Net payments related to settlement of warrants and stock options were DKK 219 million and this represented the net of DKK 130 million in proceeds from issue of share capital, offset by DKK 171 million related to purchase of treasury shares and cash settlement of DKK 178 million. Payment of dividends to shareholders was a cash outflow of DKK 7,229 million. Net payments to minority interests amounted to DKK 11 million.

Net cash flow from financing activities represented an inflow of DKK 3,938 million in 2004. This amount reflected cash received following an increase in indebtedness of DKK 3,358 million, which was partly offset by the payment of dividends to shareholders in the amount of DKK 177 million, payments to minority interests of DKK 6 million and the purchase of treasury shares in the amount of DKK 30 million.

Cash conversion was 103% in 2005. The free cash flow of DKK 1,074 million did not include the gain on the divestment of the Health Care operations, which was included in profit before impairment/amortization of intangibles. Accordingly, the calculation of cash conversion was adjusted for the gain of DKK 237 million. Cash conversion was impacted by cash flows, which were only partially included in the income statement. This included a cash inflow of DKK 514 million related to the gain on settlement of interest rate swaps and a cash outflow of DKK 391 million, primarily tax payments related to the settlement of interest rate swaps and tax payments related to prior years.

ISS expects to continue to generate positive free operating cash flow, although it does not expect that its cash conversion ratios will continue to be above 100% as they have been in recent years. Cash conversion ratios for individual years may vary. The cash flows from operations for the individual periods are dependent on the timing of a number of payments around the end of the individual months and years.

BALANCE SHEET

Total assets amounted to DKK 31,865 million at December 31, 2005, an increase of DKK 1,060 million, or 3% from DKK 30,805 million at December 31, 2004. The increase was primarily due to higher levels of intangible assets and trade receivables, offset by decrease in securities and cash and cash equivalents.

Intangible assets increased by DKK 1,846 million, or 11% from DKK 16,667 million at December 31, 2004, to DKK 18,513 million at December 31, 2005. Intangible assets were primarily related to Goodwill and Customer contract portfolios and related customer relationships.

Goodwill relates to acquisitions carried out under varying circumstances and at different stages of macroeconomic cycles. The goodwill is distributed on most of the countries in which the Group operates. The acquired companies, to which the goodwill relates, comprise a diverse portfolio of service types, customer segments, geographical regions, contract sizes and management skills. The largest amount of goodwill relates to the Group's operations in France, representing 25% of the total carrying amount of goodwill. At December 31, 2005, goodwill stood at DKK 16,592 million, an increase of DKK 1,208 million, or 8%, from DKK 15,384 million in 2004. Additions of DKK 2,044 million related to acquisitions in 2005 and positive currency adjustments of DKK 124 million were partly offset by DKK 769 million related to divestments of ISS Health Care and ISS Japan and impairment and write-down of DKK 191 million.

Customer contract portfolios and related customer relationships increased by DKK 678 million from DKK 1,108 million at December 31, 2004, to DKK 1,786 million at December 31, 2005. Additions of DKK 863 million from acquisitions and DKK 10 million of foreign exchange adjustments were partly offset by amortization of DKK 201 million.

Investment in associates decreased from DKK 180 million at December 31, 2004, to DKK 132 million at December 31, 2005, primarily due to the disposal of the 49% stake in CarePartner.

Securities decreased from DKK 586 million at December 31, 2004, to DKK 59 million at December 31, 2005, and **Cash and cash equivalents** decreased from DKK 3,121 million at December 31, 2004, to DKK 1,293 million at December 31, 2005. The decrease was primarily due to a planned increase of financial leverage following the change of ownership.

Total equity decreased from DKK 8,822 million at December 31, 2004, to DKK 2,285 million at December 31, 2005.

Equity attributable to the equity holders of ISS amounted to DKK 2,230 million at December 31, 2005, a decrease of DKK 6,492 million from DKK 8,722 million at December 31, 2005. The decrease was part of the planned increase of financial leverage, which was implemented through dividend payments of DKK 7,229 million, of which DKK 6,994 million were interim dividends paid after the change of ownership. Settlement of warrants and stock options, net of tax, reduced equity by DKK 171 million. The settlement included cash settlement of DKK 131 million, net of tax, and net purchase of treasury shares of DKK 170 million, which was offset by the issue of 367,317 new ISS shares at an average share price of DKK 354 per share increased equity by DKK 130 million.

Net income and expenses recognized directly in equity reduced equity by DKK 21 million. This included currency adjustments relating to investments in foreign subsidiaries of DKK 164 million and realized and unrealized net losses on hedges of DKK 67 million. Declining discount rates and use of updated mortality tables resulted in an increase in pension liabilities. Thus, net unrecognized actuarial losses on defined benefit pension schemes amounted to DKK 224 million. The losses were primarily related to the Group's pension schemes in the Netherlands, Norway, Sweden, Switzerland and the United Kingdom. As described in note 1 to the consolidated financial statements, such losses are taken directly to equity. Fair value adjustments related to equity stakes in PFIs in the United Kingdom increased equity by DKK 36 million, and share-based payments expensed in the income statement were offset by an increase in equity of DKK 23 million. Other entries recognized in equity reduced equity by DKK 26 million and tax effect of entries recognized directly in equity was DKK 73 million.

Net profit for the year attributable to the equity holders of ISS was DKK 935 million.

The equity ratio, defined as total equity relative to total assets, decreased from 28.6% at December 31, 2004, to 7.2% at December 31, 2005, which was primarily due to capital structure adjustments through the payment of dividends of DKK 7.2 billion.

Pensions and similar obligations amounted to DKK 833 million at December 31, 2005, against DKK 714 million at December 31, 2004. The majority of the Group's pension plans are defined contribution plans. ISS's contributions to such plans are accrued and expensed on an ongoing basis. In certain countries, mainly in the Netherlands, Norway, Sweden, Switzerland and the United Kingdom, ISS has defined benefit plans. As mentioned above, actuarial losses, net, of DKK 224 million were taken directly to equity. The net liability for the defined benefit plans amounted to DKK 801 million at December 31, 2005, representing an increase from DKK 680 million at December 31, 2004, primarily due to a decrease in discount rates and use of updated mortality tables. Based on the current discount rates ranging between 2.7% and 5.0%, pension costs are expected to amount to approximately DKK 125 million in 2006. A simultaneous change in the discount rates of 0.5 percentage point is estimated to increase or decrease, as the case may be, the costs in 2006 to approximately DKK 139 million or approximately DKK 112 million, all other things being equal. For detailed information on pension obligations, please see note 27 to the consolidated financial statements.

Other provisions were DKK 719 million at December 31, 2005, of which DKK 480 million had an estimated maturity of less than one year. Comparative figures at December 31, 2004, were DKK 646 million and DKK 377 million, respectively. Provisions related to acquisitions, mainly transaction costs, redundancy payments and termination of rental of properties, amounted to DKK 59 million against DKK 115 million at December 31, 2004. This was a decrease of DKK 56 million compared with 2004. The remaining provisions comprise various obligations incurred in the ordinary course of business, e.g. labor related obligations, legal obligations, contract closures etc.

Interest-bearing debt, net was DKK 15,462 million, an increase against DKK 7,224 million at December 31, 2004. Long- and short-term debt amounted to DKK 17,404 million, including non-interest-bearing debt of DKK 443 million, which were primarily related to unamortized gains from settled interest rate swaps. Receivable from affiliates, securities and cash and cash equivalents amounted to DKK 1,499 million. The interest-bearing debt, net, was mainly affected by the free cash flow of DKK 1,074 million, dividend payments of DKK 7,229 million and cash outflow related to acquisitions of DKK 2,570 million.

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

January 1 – December 31. Amounts in DKK millions

Note		2005			2004		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
2	**Revenue**	**46,081**	**359**	**46,440**	**39,658**	**697**	**40,355**
3, 4	Staff costs	(30,361)	(231)	(30,592)	(26,229)	(367)	(26,596)
	Cost of sales	(3,733)	(20)	(3,753)	(3,101)	(45)	(3,146)
5	Other operating expenses	(8,724)	(62)	(8,786)	(7,540)	(196)	(7,736)
15, 17	Depreciation and amortization	(653)	(6)	(659)	(594)	(23)	(617)
2	**Operating profit before other items**	**2,610**	**40**	**2,650**	**2,194**	**66**	**2,260**
6	Other income and expenses, net	(533)	247	(286)	(36)	(1)	(37)
	Integration costs	(68)	–	(68)	(142)	–	(142)
2	**Operating profit**	**2,009**	**287**	**2,296**	**2,016**	**65**	**2,081**
18	Share of profit from associates	14	1	15	8	25	33
7	Net finance costs	(510)	(11)	(521)	(307)	(28)	(335)
	Profit before tax and impairment/ amortization of intangibles	**1,513**	**277**	**1,790**	**1,717**	**62**	**1,779**
8	Income taxes	(496)	(13)	(509)	(547)	(7)	(554)
	Profit before impairment/ amortization of intangibles	**1,017**	**264**	**1,281**	**1,170**	**55**	**1,225**
9,15,16	Goodwill impairment and write-down	(191)	–	(191)	(344)	–	(344)
15	Amortization of customer contracts [1]	(200)	(1)	(201)	(77)	(1)	(78)
8	Tax effect	59	–	59	34	–	34
	Net profit for the year	**685**	**263**	**948**	**783**	**54**	**837**
	Attributable to:						
	Equity holders of ISS	672	263	935	763	54	817
	Minority interests	13	–	13	20	–	20
	Net profit for the year	**685**	**263**	**948**	**783**	**54**	**837**

[1] Includes customer contract portfolios and related customer relationships.

10	Earnings per share before impairment/ amortization of intangibles, DKK	21.6	5.6	27.2	27.0	0.7	27.7
10	Basic earnings per share, DKK	14.3	5.6	19.9	17.7	0.7	18.4
10	Diluted earnings per share, DKK	14.2	5.6	19.8	17.7	0.7	18.4

CONSOLIDATED CASH FLOW STATEMENT

January 1 – December 31. Amounts in DKK millions

	2005	2004	Note
Operating profit before other items	2,650	2,260	
Share-based payments	3	8	
Depreciation and amortization	659	617	15, 17
Changes in working capital	(234)	186	11
Changes in provisions	(177)	(88)	
Interest paid, net [1]	25	(326)	
Income taxes paid, net	(898)	(602)	8
Payments related to other income and expenses, net	(277)	(64)	
Payments related to integration costs	(128)	(45)	
Cash flow from operating activities	**1,623**	**1,946**	2
Acquisition of businesses	(2,570)	(3,853)	12
Divestment of businesses	845	36	12
Investments in intangible assets and property, plant and equipment, net	(549)	(583)	13
Investments in financial assets, net	422	(601)	13
Cash flow from investing activities	**(1,852)**	**(5,001)**	
Financial payments, net	5,859	3,358	14
Proceeds from issuance of share capital	130	793	
Additions of treasury shares	(171)	(30)	
Dividends paid to shareholders	(7,229)	(177)	
Options and warrants settled	(178)	–	
Minority interests	(11)	(6)	
Cash flow from financing activities	**(1,600)**	**3,938**	
Total cash flow	**(1,829)**	**883**	
Cash and cash equivalents at January 1	3,121	2,243	
Total cash flow	(1,829)	883	
Foreign exchange adjustments	1	(5)	
Cash and cash equivalents at December 31	**1,293**	**3,121**	24

[1] In 2005, interest paid, net included a cash inflow of DKK 514 million in cash flow from the settlement of interest rate swaps.

CONSOLIDATED BALANCE SHEET

At December 31. Amounts in DKK millions

Note		2005	2004
	Assets		
15, 16	Intangible assets	18,513	16,667
17	Property, plant and equipment	1,956	1,793
18	Investments in associates	132	180
8, 19	Deferred tax assets	645	603
20	Other financial assets	234	221
	Total non-current assets	**21,480**	**19,464**
21	Inventories	300	263
22	Trade receivables	7,564	6,376
22	Contract work in progress	153	156
8	Tax receivables	139	103
23	Other receivables	877	736
24	Securities	59	586
24	Cash and cash equivalents	1,293	3,121
	Total current assets	**10,385**	**11,341**
	Total assets	**31,865**	**30,805**
	Equity and liabilities		
	Total equity attributable to equity holders of ISS	2,230	8,722
	Minority interests	55	100
25, 37	**Total equity**	**2,285**	**8,822**
26	Long-term debt	16,358	10,359
27	Pensions and similar obligations	833	714
8, 19	Deferred tax liabilities	536	611
28	Other provisions	239	269
	Total long-term liabilities	**17,966**	**11,953**
29	Short-term debt	1,046	811
	Trade payables	1,928	1,773
8	Tax payables	81	240
30	Other liabilities	8,079	6,829
28	Other provisions	480	377
	Total current liabilities	**11,614**	**10,030**
	Total liabilities	**29,580**	**21,983**
	Total equity and liabilities	**31,865**	**30,805**

CONSOLIDATED STATEMENT OF TOTAL RECOGNIZED INCOME AND EXPENSE AND CHANGES IN EQUITY

At December 31. Amounts in DKK millions

2005	Share capital	Treasury shares	Share premium	Retained earnings	Cumulative fx adj.	Realized gain/(loss) on hedges	Unrealized gain/(loss) on hedges	Minority interests	Total equity
	Attributable to equity holders of ISS								
Total recognized income and expense									
Net profit for the year	–	–	–	935	–	–	–	13	948
Foreign exchange adj. of subsidiaries and minorities	–	–	–	–	159	–	–	5	164
Gain/(loss) on hedges, net	–	–	–	8	–	(82)	7	–	(67)
Actuarial losses, net	–	–	–	(224)	–	–	–	–	(224)
Fair value adjustment of PFIs	–	–	–	36	–	–	–	–	36
Share-based payments	–	–	–	23	–	–	–	–	23
Other	–	–	–	(26)	–	–	–	–	(26)
Tax of entries recognized directly in equity	–	–	–	53	–	18	2	–	73
Net income and expense recognized directly in equity	**–**	**–**	**–**	**(130)**	**159**	**(64)**	**9**	**5**	**(21)**
Total recognized income and expense for the year	**–**	**–**	**–**	**805**	**159**	**(64)**	**9**	**18**	**927**
Equity at January 1, 2005	**947**	**(58)**	**–**	**7,879**	**(33)**	**2** [1]	**(15)** [1]	**100**	**8,822**
Changes in equity									
Total recognized income and expense for the year	–	–	–	805	159	(64)	9	18	927
Impact from acquired and divested companies, net	–	–	–	–	(1)	–	–	(47)	(48)
Dividends paid [2]	–	–	–	(7,229)	–	–	–	(16)	(7,245)
Addition of treasury shares, net	–	(170)	–	–	–	–	–	–	(170)
Settlement of warrants and options, net of taxes [3]	–	–	–	(131)	–	–	–	–	(131)
Share issue	7	–	–	123	–	–	–	–	130
Total changes in equity	**7**	**(170)**	**–**	**(6,432)**	**158**	**(64)**	**9**	**(45)**	**(6,537)**
Equity at December 31, 2005 [4]	**954**	**(228)**	**–**	**1,447**	**125**	**(62)** [1]	**(6)** [1]	**55**	**2,285**

[1] Net of taxes.
[2] Dividends paid per share, attributable to equity holders of ISS, amounted to DKK 153.5.
[3] Warrants and options settled in connection with the acquisition of ISS by FS Funding A/S. See note 4, Share-based payments.
[4] At December 31, 2005, retained earnings included DKK 800 million in proposed dividends.

CONSOLIDATED STATEMENT OF TOTAL RECOGNIZED INCOME AND EXPENSE AND CHANGES IN EQUITY

At December 31. Amounts in DKK millions

2004	Attributable to equity holders of ISS: Share capital	Treasury shares	Share premium	Retained earnings	Cumu-lative fx adj.	Realized gain/(loss) on hedges	Unrealized gain/(loss) on hedges	Minority interests	Total equity
Total recognized income and expense									
Net profit for the year	–	–	–	817	–	–	–	20	837 [5]
Foreign exchange adj. of subsidiaries and minorities	–	–	–	–	(33)	–	–	(2)	(35)
Gain/(loss) on hedges, net	–	–	–	3	–	2	5	–	10
Actuarial losses, net	–	–	–	(40)	–	–	–	–	(40)
Share-based payments	–	–	–	8	–	–	–	–	8
Tax on entries recognized directly in equity	–	–	–	9	–	–	(2)	–	7
Net income and expense recognized directly in equity	**–**	**–**	**–**	**(20)**	**(33)**	**2**	**3**	**(2)**	**(50)**
Total recognized income and expense for the year	**–**	**–**	**–**	**797**	**(33)**	**2**	**3**	**18**	**787**
Equity at January 1, 2004	**886**	**(28)**	**17**	**6,967**	**(191)**	**–**	**(18)** [1]	**108**	**7,741**
Impact from transition to IFRS	–	–	–	(473)	191	–	–	–	(282)
Adjusted equity at January 1, 2004	**886**	**(28)**	**17**	**6,494**	**–**	**–**	**(18)** [1]	**108**	**7,459** [5]
Changes in equity									
Total recognized income and expense for the year	–	–	–	797	(33)	2	3	18	787
Impact from acquired and divested companies, net	–	–	–	–	–	–	–	(20)	(20)
Dividends paid [2]	–	–	–	(177)	–	–	–	(6)	(183)
Share issue	51	–	695	–	–	–	–	–	746
Employee shares	10	–	37	–	–	–	–	–	47
Tax regarding employee shares	–	–	–	16	–	–	–	–	16
Addition of treasury shares	–	(30)	–	–	–	–	–	–	(30)
Transfer [3]	–	–	(749)	749	–	–	–	–	–
Total changes in equity	**61**	**(30)**	**(17)**	**1,385**	**(33)**	**2**	**3**	**(8)**	**1,363**
Equity at December 31, 2004 [4]	**947**	**(58)**	**–**	**7,879**	**(33)**	**2** [1]	**(15)** [1]	**100**	**8,822**

[1] Net of taxes.
[2] Dividends paid per share, attributable to equity holders of ISS, amounted to DKK 4.
[3] In accordance with changed legislation, the share premium account was transferred to retained earnings at December 31, 2004.
[4] At December 31, 2004, retained earnings included DKK 237 million in proposed dividends of which DKK 1 million was attributable to ISS's wholly owned subsidiaries.
[5] According to the description of the expected impact from the transition to IFRS as included in the 2004 Annual Report pages 150-172 (unaudited), expected equity including minorities according to the January 1, 2004 IFRS opening balance amounted to DKK 7,474 million, and net profit for the year amounted to DKK 895 million. A defined benefit pension obligation in Slovenia of DKK 15 million has been recognized in the final IFRS opening balance sheet reducing equity to DKK 7,459 million. Amortization of customer contracts, net of tax of DKK 58 million reduced net profit for the year from DKK 895 million to DKK 837 million. See note 37, Transition to IFRS for an explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of ISS. This note includes reconciliations of equity and net result reported under previous GAAP to those reported under IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

The consolidated financial statements of ISS A/S as of and for the year ended December 31, 2005, comprise ISS A/S and its subsidiaries (together referred to as "ISS") and ISS's interests in associates and jointly controlled entities.

STATEMENT OF COMPLIANCE
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU being effective for accounting periods beginning on January 1, 2005, and the statutory order on the adoption of IFRS issued pursuant to the Danish Financial Statements Act. These are ISS's first IFRS consolidated financial statements and IFRS 1, "First-time Adoption of International Financial Reporting Standards" has been applied. ISS has opted for early adoption of the amendment to IAS 19, "Employee Benefits" issued in December 2004 and IAS 39, "Financial Instruments: Recognition and Measurement" is applied from January 1, 2005, with no restatement of comparative figures for 2004.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated, and in preparing the IFRS opening balance sheet as at January 1, 2004, for the purpose of the transition to IFRS.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of ISS is provided in note 37, Transition to IFRS. This note includes reconciliations of equity and net profit reported under previous GAAP to those reported under IFRS.

BASIS OF PREPARATION
The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of available-for-sale financial assets, and financial assets and liabilities (including derivative financial instruments) at fair value through the income statement.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. ISS believes the following are the areas involving critical accounting estimates and judgements used in the preparation of the consolidated financial statements:

- revenue recognition and determination of deferred income
- the valuation of identifiable assets, liabilities and contingent liabilities in connection with the acquisition of subsidiaries/operations
- the impairment testing of goodwill, customer contract portfolios and related customer relationships, and any other acquisition-related intangible assets
- the actuarial calculations regarding pension benefits
- the valuation of provisions other than pension benefits
- the assessment of ongoing litigation and the valuation of contingent liabilities
- the valuation of tax assets and
- bad debt provisions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

BASIS OF CONSOLIDATION
Subsidiaries The consolidated financial statements include ISS A/S and all subsidiaries in which ISS A/S, directly or indirectly, holds more than 50% of the voting rights or otherwise has a controlling interest.

The consolidated financial statements are based on the financial statements of ISS A/S and the individual subsidiaries by adding items of a similar nature.

Associates Entities, which are not regarded as subsidiaries, but in which ISS holds investments and exercises a significant, but not a controlling influence are regarded as associates. The proportionate share of the associate's profit or loss after tax is recognized in the income statement in the consolidated financial statements in accordance with the equity method.

Continues

1. Significant accounting policies (continued)

Joint ventures ISS's interests in jointly controlled entities are regarded as joint ventures and recognized in the consolidated financial statements by including ISS's proportionate share of the entities' assets, liabilities, income and expenses on a line-by-line basis with items of a similar nature.

Transactions eliminated on consolidation Intra-group balances and any unrealized gains and losses on income and expenses arising from intra group transactions are eliminated when preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of ISS's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Business Combinations Acquired entities are included in the consolidated financial statements as from the date when control commences. Entities that are divested or wound-up are included until the date where control ceases or the entity is wound-up. Comparative figures are not restated for entities acquired, divested or wound-up.

For acquisitions made prior to January 1, 2004, goodwill is included on the basis of its deemed cost, which represents the net book value as at December 31, 2003, recorded under previously applied accounting policies. The accounting treatment of acquisitions that occurred prior to January 1, 2004, has in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" not been reconsidered in preparing ISS's opening IFRS balance sheet as at January 1, 2004. Goodwill recognized in the IFRS opening balance sheet has been tested for impairment.

Acquisitions made after January 1, 2004, are treated in accordance with the purchase method, under which identifiable assets, liabilities and contingent liabilities of acquired entities are recognized in the balance sheet at fair value at the date of acquisition. Identifiable intangible assets are recognized if separable or if they arise from contractual or other legal rights, provided that the fair value can be measured reliably. Tax impact related to fair value adjustments is taken into account.

Excess cost of acquisition over the fair value of acquired assets, liabilities and contingent liabilities is capitalized as goodwill. Goodwill is allocated to cash-generating units and tested for impairment annually. The first impairment test is prepared no later than at the end of the year of acquisition.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected, adjustments made within twelve months of the acquisition date to the provisional fair value of acquired assets, liabilities and contingent liabilities or cost of the acquisition, are adjusted to the initial goodwill. The adjustment is calculated as if it was recognized at the acquisition date. Comparative figures are restated. Subsequent to this period, goodwill is only adjusted for changes in estimates of the cost of the acquisition being contingent on future events. However, subsequent realization of deferred tax assets not recognized on acquisition will result in the recognition in the income statement of the tax benefit concurrently with a write-down of the carrying amount of goodwill to the amount that would have been recognized if the deferred tax asset had been recognized at the time of the acquisition.

Gains or losses on the divestment or winding-up of subsidiaries or associates are measured as the difference between the sales or winding-up sum adjusted for directly related divestment or winding-up costs and the carrying amount of the net assets at the time of disposal or winding-up including any carrying value of goodwill. Accumulated exchange rate adjustments on divested or wound-up subsidiaries or associates recognized in equity after January 1, 2004, the date of transition to IFRS, are included in the income statement under Net finance costs.

Foreign currency Items included in the financial statements of each of ISS's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Danish kroner, which is the functional and presentation currency of ISS A/S.

Transactions in foreign currency are translated into the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currency are translated at the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

The income statements of foreign subsidiaries are translated into Danish kroner using the average exchange rates prevailing during the year, whereas balance sheet items are translated by applying the exchange rates ruling at the balance sheet date.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity having a functional currency different from Danish kroner are treated as assets and liabilities belonging to the foreign entity and translated into Danish kroner at the exchange rates ruling at the balance sheet date.

Continues

1. Significant accounting policies (continued)

Realized and unrealized exchange gains and losses are included in the income statement under Net finance costs, except gains/losses arising from the translation of:

- the opening balances of net assets of foreign subsidiaries/joint ventures and investments in associates to exchange rates ruling at the balance sheet date
- the income statements of foreign subsidiaries/joint ventures and the share of profit from associates from average exchange rates to exchange rates ruling at the balance sheet date
- long-term intra group balances which are considered an addition to the net assets of subsidiaries/joint ventures
- loans in foreign currency and derivatives hedging net investments in foreign subsidiaries/joint ventures.

Realized and unrealized exchange gains and losses related to the translation of the above four groups of transaction are taken directly to equity. The related tax impact is taken into account.

INCOME STATEMENT

Revenue comprises the value of services provided during the year less VAT and duties as well as price and quantity discounts. Revenue is recognized when it is realized or realizable and earned. Revenue is considered to have been earned when ISS has substantially accomplished what it must do to be entitled to the revenue. Contract work in progress is recognized using the percentage-of-completion method based on the value of work completed at the balance sheet date.

In assessing whether revenue should be reported on a gross or a net basis (i.e. net of related costs), ISS considers whether it: (i) is the primary obligor in the arrangement; (ii) has the general inventory risk; (iii) has latitude in establishing price; (iv) changes the product or performs part of the service; (v) has discretion in supplier selection; (vi) is involved in the determination of product or service specifications; (vii) has physical loss inventory risk; or (viii) carries the credit risk.

Government grants Grants that compensate ISS for expenses incurred are recognized in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate ISS for the cost of an asset are recognized in the income statement on a systematic basis over the useful lifetime of the asset.

Operating expenses **Staff costs** comprises salaries and wages, pensions, social security expenses and other employee related expenses. **Cost of sales** comprises materials consumption related to the recorded revenue. **Other operating expenses** includes expenses related to the operation of service equipment and other non-current assets, external assistance as well as other selling, distribution and administrative expenses, including expenses related to marketing, transportation, operating leases, subcontractors, audit, legal assistance, losses and loss provisions on receivables etc.

Share-based compensation The fair value of equity-settled share-based compensation plans, is recognized as an expense with a corresponding increase in equity. The fair value is fixed at grant date and allocated over the vesting period. The fair value of the options and warrants granted is measured using the Black-Scholes valuation method taking the terms and conditions upon which they were granted into account. Non-market vesting conditions are included in the assumptions about the number of options and warrants that are expected to become exercisable. At each balance sheet date, ISS revises this estimate. ISS recognizes the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Adjustments relating to prior years are included in the income statement in the year of adjustment.

Operating leases Operating lease costs are recognized in the income statement on a straight-line basis over the term of the lease. The obligation for the remaining lease period is disclosed in the notes under Contingent liabilities.

Other income and expenses, net consists of income and expenses, both recurring and non-recurring, that ISS does not consider to be part of normal ordinary operations, such as gains and losses arising from divestments, the winding-up of operations, disposals of property, restructurings and certain acquisition related costs.

Integration costs includes costs regarding the acquiring ISS company and the acquired company that are a consequence of the integration. Integration costs include costs of compensating employees for termination of their employment, closing facilities, elimination of service lines of the acquired company, and termination of contracts of the acquired company.

Share of profit from associates comprises the share of profit after tax in associates.

Net finance costs comprises interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on derivatives that do not qualify for hedge accounting.

Continues

1. Significant accounting policies (continued)

Income taxes consists of income tax and changes in deferred tax. Deferred tax is recognized based on the balance sheet liability method and comprises all temporary differences between accounting and tax values of assets and liabilities. Furthermore, a deferred tax liability is recognized for expected re-taxation of tax-deductible losses realized in foreign subsidiaries previously included under Danish joint taxation.

Where the tax base can be calculated using different tax regulations, deferred tax is measured based on the planned use of the asset or the unwinding of the liability, as applicable.

Deferred tax is computed based on the tax rate expected to apply when the temporary differences are balanced out. No deferred tax provisions are made for undistributed profits of subsidiaries and goodwill not deductible for tax purposes. Deferred tax assets, including the tax value of losses carried forward, are recognized at the value at which they are expected to be applied either by eliminating tax on future earnings or by setting off deferred tax liabilities within the same legal tax unit and jurisdiction.

The recognized income tax is allocated to Income taxes, Tax effect of goodwill impairment and write-down and amortization of customer contracts and Equity, as applicable.

ISS A/S is jointly taxed with all Danish resident affiliates. The Danish income tax payable is allocated between the jointly taxed Danish companies based on their proportion of taxable income (full absorption including reimbursement of tax deficits). The jointly taxed companies are included in the Danish tax on account scheme. Additions, deductions and allowances are recognized under Net finance costs.

Goodwill impairment and write-down and **Amortization of customer contracts** are presented in separate line items below operating profit as this presentation is seen to provide a clearer view of ISS profitability. The tax effect of goodwill impairment and write-down and amortization of customer contracts is presented in a separate line item in connection with these two line items.

CASH FLOW STATEMENT

The cash flow statement shows ISS's cash flows for the period stemming from operating, investing and financing activities, the change in its cash position during the period as well as ISS's cash position at the beginning and the end of the period.

The cash flow statement is prepared using the indirect method based on Operating profit before other items.

The liquidity effect of acquisitions and divestments of businesses is shown separately under Cash flow from investing activities. The cash flow statement includes cash flows from acquired entities from the date of acquisition and cash flows from divested entities until the date of divestment.

Cash flow from operating activities comprises Operating profit before other items adjusted for non-cash items, changes in working capital and provisions and payments regarding interest, income taxes, other income and expenses and integration costs.

Cash flow from investing activities comprises cash flow from acquisition and divestment of businesses as well as the purchase and sale of non-current assets.

Cash flow from financing activities comprises proceeds from and repayment of loans, dividends, proceeds from share issues, purchase and sale of treasury shares, cash flow related to derivatives hedging net investments and dividends to Minority interests.

Cash and cash equivalents comprises cash and marketable securities, with maturity of less than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

BALANCE SHEET

Business combinations are accounted for using the purchase method as described under "Basis of consolidation".

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. The determination of cash-generating units follows the level of monitoring for internal management purposes. This is generally equal to Facility Services at country level. Goodwill is tested for impairment annually.

An impairment loss is recognized whenever the carrying amount of a cash-generating unit exceeds its recoverable amount. The recoverable amount is calculated as the greater of net selling price and value in use. In assessing value in use the estimated future cash flows are discounted to their present value. An impairment loss is not reversed.

Continues

1. Significant accounting policies (continued)

Customer contract portfolios and related customer relationships Acquisition related customer contract portfolios and related customer relationships are recognized at fair value at the date of acquisition and subsequently carried at cost less accumulated amortization and any accumulated impairment losses. The value is amortized based on the churn rate of the acquired portfolio using the declining balance method. This churn rate is calculated on a contract by contract basis and has historically averaged approximately 12% to 13% annually.

The valuation of customer contract portfolios and related customer relationships is based on a discounted cash flow model using an 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. A contributory asset charge as a cost or return requirement for assets supporting the intangible asset has been included in the model. Cash flows are discounted on an after tax basis using the local Weighted Average Cost of Capital (WACC) plus a risk premium for the assumed risk inherent in customer contract portfolios and related customer relationships.

The net present value of the cash flow is increased with an estimated portion of the discounted tax amortization benefit applicable for a potential buyer based on the local tax amortization opportunity available for customer contract portfolios and customer relationships when bought as a trade and asset purchase. The tax amortization benefit is discounted. This increased value of customer contract portfolios and related customer relationships equals the fair value at the date of acquisition.

A deferred tax liability is calculated at the local tax rate on the difference between the book value and the tax value. The initial recognition of this deferred tax liability increases the amount of goodwill.

The value of customer contract portfolios and related customer relationships is tested for impairment as part of the impairment test.

Software and other intangible assets and property, plant and equipment are measured at cost less accumulated amortization, depreciation, impairment loss and write-down.

Cost of assets includes cost price as well as costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. To the cost price is added the estimated cost of dismantling and removing the item and restoring the site on which it is located to the extent that this cost is recognized as an accrued liability.

Subsequent costs of replacing part of an item are recognized if it is probable that the future economic benefits embodied with the item will flow to ISS. The remaining carrying amount of the replaced item is de-recognized in the balance sheet and transferred to the income statement. All other costs for common repairs and maintenance are recognized in the income statement as and when incurred.

When measuring the value of software developed for internal use, external costs to consultants and software as well as internal direct and indirect costs related to the development are capitalized. Other development costs for which it cannot be rendered probable that future economic benefit will flow to ISS are recognized in the income statement as and when incurred.

Amortization and depreciation is provided on a straight-line basis over the expected useful lives of the assets taking into account the estimated residual value. The amortization and depreciation methods, useful lives and residual values are reassessed annually.

Non-current assets	**Expected useful life**
Software and other intangible assets	5-10 years
Buildings	20-40 years
Leasehold improvements	Over the lease term
Plant and equipment	3-10 years

If the estimated useful lives of the assets or the estimated residual value is changed the impact on the amortization and depreciation is recognized prospectively.

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

Leased assets Assets held under finance leases are at inception of the agreement measured in the balance sheet at the lower of the fair value and the present value of future lease payments. When calculating the present value, the interest rate implicit in the lease or an approximated rate is applied as the discount rate. Assets held under finance leases are depreciated in accordance with the policy for non-current assets acquired by ISS.

Continues

1. Significant accounting policies (continued)

Financial assets Investments in associates are measured in accordance with the equity method. Associates with a negative net asset value are stated at zero, and amounts owed to ISS by such associates are written down by ISS's share of the negative net asset value to the extent it is considered uncollectible. Should the negative net asset value exceed the receivable, the residual amount is recognized under provisions to the extent ISS has a legal or constructive obligation to cover the negative balance.

Costs related to tenders for public offers for PPP (Public Private Partnership)/PFI (Private Finance Initiative) contracts are recognized in the income statement as incurred. If ISS is awarded status as preferred bidder, directly attributable costs and investments from that date, if any, are recognized under Financial assets. For PPP/PFI contracts awarded, the costs are amortized over the term of the contract. If ISS is not awarded the contract, all costs are recognized in the income statement.

Investments in PFI contracts are classified as available-for-sale and are measured at fair value at the balance sheet date, with any resulting gains or losses being recognized directly in equity. When these investments are de-recognized, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement. The fair value is the quoted bid price at the balance sheet date.

Inventories Raw materials and supplies are measured at the lower of cost under the FIFO principle and net realizable value. Finished goods and Work in progress are measured at the lower of cost plus attributable overheads and net realizable value. The cost price of raw materials and supplies includes the purchase price plus costs directly related to the purchase. Net realizable value is the estimated selling price less costs of completion and selling costs.

Receivables are measured at amortized cost less a provision for doubtful debts based on an individual assessment. Provisions and realized losses during the year are recognized under Other operating expenses.

Contract work in progress is measured at the sales value of the proportion of work completed at the balance sheet date. The sales value is calculated based on the stage of completion and the total amount expected to be received for each individual contract. Progress billings related to the completed proportion of work to be performed are deducted from the recognized value, while progress billings exceeding the completed proportion of work to be performed are recognized as Prepayments from customers under Current liabilities.

Securities are measured at fair value at the balance sheet date, with any resulting gains or losses recognized in the income statement. The fair value is the quoted bid price at the balance sheet date.

Treasury shares Proceeds related to the acquisition or disposal of treasury shares are taken directly to equity.

Dividends are recognized in the period in which they are declared.

Financial liabilities are initially measured at the value of the proceeds received less related transaction costs. Subsequently, financial liabilities are measured at amortized cost, equal to the capitalized value when applying a constant effective rate of interest, and the difference between the proceeds initially received and the nominal value is recognized in the income statement over the loan period.

Pensions and similar obligations Net obligations in respect of defined benefit pension plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. Discount rates are based on the market yield of high quality corporate bonds in the country concerned approximating to the terms of ISS's pension obligations. The calculations are performed by a qualified actuary using the Projected Unit Credit Method. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until the benefits vest. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

All actuarial gains and losses were recognized directly in equity as at January 1, 2004, the date of transition to IFRS. Actuarial gains and losses arising subsequent to January 1, 2004 are also recognized directly in equity.

Net pension assets are only recognized to the extent that ISS is able to derive future economic benefits in the way of refunds from the plan or reductions of future contributions.

Other provisions comprise obligations concerning labor related matters, self-insurance, integration costs related to acquisitions, dismantling costs, and various other operational issues. The provisions are recognized when ISS has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Continues

1. Significant accounting policies (continued)

Derivatives are measured at fair value calculated according to generally accepted valuation methods and recognized in Other receivables or Other liabilities.

For derivatives hedging the fair value of recognized assets and liabilities the value of the hedged asset or hedged liability is also stated at fair value in respect of the risk being hedged. When a hedging instrument expires or is sold, terminated or exercised but the hedged asset or hedged liability with a determinable maturity still exist, the adjustment recorded as part of the carrying amount of the hedged item is amortized to the income statement from that date onwards using the effective interest method.

The effective part of the changes in the fair value of derivatives hedging future transactions are recognized directly in equity, net of tax. On realization of the hedged item, value changes recognized under equity are reversed and recognized together with the hedged item. When a hedging instrument expires or is sold, terminated or exercised but the hedged future transactions are still expected to occur, the cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs.

Derivatives that qualify as net investment hedges of subsidiaries, joint ventures and associates are recognized directly in equity, net of tax.

For derivatives, which do not comply with the hedge accounting conditions, changes in fair value are recognized as Net finance costs in the income statement as they occur.

Non-current assets held for sale Assets are classified as held for sale when the carrying amount of the assets will primarily be recovered through a sale within 12 months according to a formal plan rather than through continuing use. Assets held for sale are recognized at the lower of the carrying amount and fair value less costs to sell. Assets held for sale are not amortized or depreciated. Impairment losses on initial classification as held for sale are included in the income statement. The same applies to gains and losses on subsequent remeasurement. Assets and related liabilities are separated in the balance sheet and the main elements are specified in the notes to the financial statements.

Discontinued operations comprise a component of ISS's business that represent a separate major line of business or geographical area of which the operations and cash flows can be clearly distinguished, i.e. as a minimum a cash-generating unit. Classification as discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. The profit or loss is separated in the income statement, assets and related liabilities are separated in the balance sheet, and the cash flows from operating, investing and financing activities are disclosed in the notes to the financial statements.

January 1 – December 31. Amounts in DKK millions

2. Segment information

The geographical segment is the primary segment. Compared to 2004 the two Business Builds, Damage Control and Food Hygiene, were merged into the Facility Services business segment. Furthermore, the Health Care operations were sold as at June 30, 2005. Accordingly, in line with the internal management structure, the geographical segment is the primary segment.

Geographical (Primary Segment)	External revenue	Total revenue [1]	Operating profit before other items	Operating margin %	Operating profit [2]	Share of profit from associates	Cash flow from operating activities [2]
2005							
France	8,822	8,822	564	6.4	512	0	156
United Kingdom	6,036	6,039	370	6.1	374	–	217
Norway	3,724	3,724	271	7.3	229	2	124
Denmark	3,515	3,528	252	7.1	215	–	202
Netherlands	3,259	3,259	200	6.1	176	–	212
Sweden (excluding Health Care)	3,170	3,172	133	4.2	56	–	173
Finland	3,132	3,132	235	7.5	226	1	185
Spain	2,675	2,675	158	5.9	146	–	96
Belgium and Luxembourg	2,341	2,341	146	6.2	135	–	114
Germany	1,791	1,791	56	3.2	(19)	0	36
Switzerland	1,399	1,399	95	6.8	85	–	90
Austria	1,367	1,367	105	7.7	105	–	29
Central Eastern Europe	486	486	38	7.8	36	–	34
Ireland	463	463	40	8.7	40	–	45
Brazil	458	458	25	5.5	25	–	17
Hong Kong	434	434	26	6.1	26	–	29
Israel	375	375	23	6.1	16	–	6
Singapore	366	366	21	5.7	20	–	23
Australia	338	338	40	11.8	32	11	20
Turkey	298	298	17	5.7	17	–	11
Portugal	283	283	20	7.0	20	–	19
Greece	208	208	13	6.1	12	–	9
Italy	202	202	22	10.9	22	–	21
Iceland	136	136	10	7.1	10	–	11
Thailand	115	115	8	6.7	8	–	3
Greenland	105	105	5	4.4	1	–	5
Indonesia	92	92	9	9.4	9	–	10
Argentina	77	77	1	1.7	(1)	–	(9)
Poland	72	72	3	3.7	3	–	3
Malaysia	70	70	5	7.3	5	–	7
Chile	58	58	4	6.7	4	–	1
New Zealand	55	55	2	2.8	2	–	(0)
China	48	48	2	3.5	2	–	2
Estonia	33	33	1	3.6	1	–	2
Russia	24	24	(6)	(26.0)	(6)	–	(9)
Sri Lanka	20	20	1	3.7	1	–	(1)
Brunei	16	16	3	20.9	3	–	3
India	13	13	0	2.5	0	–	(1)
Uruguay	5	5	0	4.5	0	–	(0)
Regional items, not allocated to countries	–	–	(23)	–	(29)	–	78
Continuing operations	**46,081**	**46,099**	**2,895**	**6.3**	**2,519**	**14**	**1,973**
Japan	49	49	2	3.3	12	–	2
Health Care	310	310	38	12.2	275	1	(1)
Discontinued operations	**359**	**359**	**40**	**11.1**	**287**	**1**	**1**
Corporate functions/eliminations	–	(18)	(285)	–	(510)	–	(351)
Total	**46,440**	**46,440**	**2,650**	**5.7**	**2,296**	**15**	**1,623**

[1] Internal revenue has not been disclosed due to immateriality.
[2] Excluding internal royalty to corporate functions.

Continues

January 1 – December 31. Amounts in DKK millions

2. Segment information (continued)

Geographical (Primary Segment)	Segment assets	Investment in intangible assets and property, plant and equipment, net	Investments in associates	Depreciation and amortization	Goodwill impairment and write-down	Amortization of customer contracts	Segment liabilities	Number of employees at year-end
2005								
France	8,005	(129)	3	156	–	27	6,350	40,168
United Kingdom	2,888	(56)	–	63	–	18	2,422	38,015
Norway	1,903	(44)	45	64	–	11	1,515	9,528
Denmark	1,722	(34)	–	52	–	6	844	12,424
Netherlands	2,513	(8)	4	30	10	8	1,710	21,024
Sweden (excluding Health Care)	1,788	(42)	–	49	73	8	1,657	10,156
Finland	2,609	(48)	1	66	–	32	1,715	12,488
Spain	1,807	(12)	–	14	–	33	1,616	20,664
Belgium and Luxembourg	1,361	(13)	–	18	–	7	926	10,921
Germany	1,378	(13)	1	17	93	13	685	13,982
Switzerland	932	(25)	–	24	2	5	682	7,393
Austria	845	(6)	–	7	–	5	963	7,477
Central Eastern Europe	321	(11)	–	8	–	0	126	11,178
Ireland	319	(15)	–	7	–	10	220	2,950
Brazil	189	(5)	–	6	–	0	98	12,571
Hong Kong	468	(6)	–	5	–	2	309	7,475
Israel	243	(7)	–	5	5	2	83	5,891
Singapore	199	(9)	–	6	–	1	101	4,693
Australia	763	(10)	78	7	–	2	518	860
Turkey	197	(4)	–	3	–	2	67	5,953
Portugal	154	(1)	–	3	–	1	250	4,058
Greece	124	(4)	–	1	–	1	106	1,490
Italy	259	(2)	–	4	8	1	169	590
Iceland	102	(3)	–	2	–	–	18	694
Thailand	52	(3)	–	2	–	0	24	7,456
Greenland	103	(3)	–	6	–	–	56	291
Indonesia	36	(8)	–	4	–	0	17	11,700
Argentina	68	(4)	–	1	–	1	26	2,171
Poland	31	(2)	–	1	–	–	17	1,834
Malaysia	77	(1)	–	2	–	0	15	2,292
Chile	56	(1)	–	1	–	1	50	2,443
New Zealand	42	(1)	–	1	–	0	31	1,042
China	27	(2)	–	1	–	2	12	8,428
Estonia	85	(0)	–	–	–	1	70	1,608
Russia	17	(2)	–	1	–	–	5	638
Sri Lanka	9	(0)	–	1	–	–	7	4,960
Brunei	25	(1)	–	1	–	–	3	271
India	38	(1)	–	0	–	0	17	2,768
Uruguay	3	(0)	–	0	–	0	1	209
Regional items, not allocated to countries	3,148	–	–	–	–	–	920	–
Continuing operations	**34,906**	**(536)**	**132**	**639**	**191**	**200**	**24,421**	**310,754**
Japan	–	(0)	–	0	–	–	–	–
Health Care	–	(3)	–	6	–	1	–	–
Discontinued operations	**–**	**(3)**	**–**	**6**	**–**	**1**	**–**	**–**
Corporate functions/eliminations [1)]	(3,041)	(10)	–	14	–	–	5,159	91
Total	**31,865**	**(549)**	**132**	**659**	**191**	**201**	**29,580**	**310,845**

[1)] Includes eliminations of intra-group balances and investments.

Continues

January 1 – December 31. Amounts in DKK millions

2. Segment information (continued)

Geographical (Primary Segment)	External revenue	Total revenue [1]	Operating profit before other items	Operating margin %	Operating profit [2]	Share of profit from associates	Cash flow from operating activities [2]
2004							
France	7,799	7,799	530	6.8	514	–	417
United Kingdom	5,537	5,539	364	6.6	350	2	343
Norway	3,084	3,084	209	6.8	201	5	221
Denmark	3,348	3,356	220	6.6	226	–	199
Netherlands	3,094	3,094	193	6.2	189	1	129
Sweden (excluding Health Care)	3,009	3,013	106	3.5	102	–	175
Finland	2,441	2,441	195	8.0	130	0	195
Spain	1,791	1,791	102	5.7	77	–	62
Belgium and Luxembourg	2,072	2,072	123	5.9	120	–	149
Germany	1,568	1,568	27	1.7	3	0	62
Switzerland	1,153	1,153	72	6.2	66	0	90
Austria	1,150	1,150	91	7.9	91	–	64
Central Eastern Europe	466	466	30	6.4	29	–	42
Ireland	300	300	24	7.9	24	–	11
Brazil	341	341	19	5.4	19	–	16
Hong Kong	355	355	18	5.1	18	0	15
Israel	373	373	19	5.0	19	–	13
Singapore	307	307	20	6.6	20	–	22
Australia	242	242	28	11.7	28	–	17
Turkey	–	–	–	–	–	–	–
Portugal	226	226	16	6.9	16	–	23
Greece	193	193	11	5.8	11	–	5
Italy	192	192	13	6.6	13	–	12
Iceland	106	106	8	7.3	8	–	8
Thailand	93	93	6	6.9	6	–	5
Greenland	123	123	2	1.4	2	–	8
Indonesia	69	69	6	9.4	6	–	8
Argentina	39	39	(1)	(2.8)	(2)	–	(7)
Poland	67	67	3	4.3	3	–	0
Malaysia	69	69	5	7.6	5	–	1
Chile	19	19	1	5.2	1	–	1
New Zealand	–	–	–	–	–	–	–
China	–	–	–	–	–	–	–
Estonia	–	–	–	–	–	–	–
Russia	–	–	–	–	–	–	–
Sri Lanka	17	17	(0)	(0.0)	(0)	–	(1)
Brunei	13	13	3	24.5	3	–	3
India	–	–	–	–	–	–	–
Uruguay	2	2	0	9.6	0	–	0
Regional items, not allocated to countries	–	–	(42)	–	(41)	–	27
Continuing operations	**39,658**	**39,672**	**2,421**	**6.1**	**2,257**	**8**	**2,335**
Japan	78	78	2	2.2	1	–	(1)
Health Care	619	619	64	10.4	64	25	77
Discontinued operations	**697**	**697**	**66**	**9.5**	**65**	**25**	**76**
Corporate functions/eliminations	–	(14)	(227)	–	(241)	–	(465)
Total	**40,355**	**40,355**	**2,260**	**5.6**	**2,081**	**33**	**1,946**

[1] Internal revenue has not been disclosed due to immateriality.
[2] Excluding internal royalty to corporate functions.

Continues

January 1 – December 31. Amounts in DKK millions

2. Segment information (continued)

Geographical (Primary Segment)	Segment assets	Investment in intangible assets and property, plant and equipment, net	Investments in associates	Depreciation and amortization	Goodwill impairment and write-down	Amortization of customer contracts	Segment liabilities	Number of employees at year-end
2004								
France	7,057	(150)	3	134	–	11	6,001	37,973
United Kingdom	2,593	(55)	–	56	36	10	1,783	37,890
Norway	1,317	(57)	64	62	–	4	1,018	7,343
Denmark	1,692	(34)	–	60	15	2	649	12,064
Netherlands	2,449	(20)	4	30	–	3	1,581	21,904
Sweden (excluding Health Care)	1,690	(45)	–	48	–	1	1,103	10,146
Finland	2,515	(45)	1	63	–	17	1,690	13,303
Spain	1,542	(11)	–	12	3	14	1,365	18,091
Belgium and Luxembourg	1,296	(11)	–	17	2	5	903	9,990
Germany	1,513	(16)	1	19	288	3	681	16,462
Switzerland	664	(10)	1	19	–	1	408	7,156
Austria	394	(5)	–	6	–	3	208	7,063
Central Eastern Europe	524	(10)	–	6	–	–	130	8,216
Ireland	124	(5)	–	4	–	1	42	1,998
Brazil	133	(2)	–	5	–	0	75	12,381
Hong Kong	199	(5)	2	4	–	–	65	5,033
Israel	193	(8)	–	5	–	–	70	5,821
Singapore	139	(5)	–	5	–	0	51	3,818
Australia	405	(5)	61	2	–	1	123	487
Turkey	–	–	–	–	–	–	–	–
Portugal	96	(3)	–	2	–	–	56	2,746
Greece	46	0	–	1	–	–	33	1,602
Italy	303	(3)	–	5	–	1	112	616
Iceland	84	(3)	–	2	–	–	18	591
Thailand	43	(3)	–	2	–	0	20	7,726
Greenland	109	(10)	–	7	–	–	61	407
Indonesia	21	(4)	–	3	–	–	9	6,977
Argentina	35	(2)	–	1	–	0	22	2,304
Poland	31	(2)	–	1	–	–	19	1,924
Malaysia	57	(2)	–	2	–	–	7	2,392
Chile	31	(1)	–	0	–	0	25	1,582
New Zealand	–	–	–	–	–	–	–	–
China	–	–	–	–	–	–	–	–
Estonia	–	–	–	–	–	–	–	–
Russia	–	–	–	–	–	–	–	–
Sri Lanka	7	0	–	1	–	–	5	5,650
Brunei	20	0	–	0	–	–	2	161
India	–	–	–	–	–	–	–	–
Uruguay	3	0	–	0	–	0	1	260
Regional items, not allocated to countries	2,606	–	–	–	–	–	413	–
Continuing operations	**29,931**	**(532)**	**137**	**584**	**344**	**77**	**18,749**	**272,077**
Japan	36	(0)	–	0	–	–	9	488
Health Care	1,040	(22)	43	23	–	1	913	892
Discontinued operations	**1,076**	**(22)**	**43**	**23**	**–**	**1**	**922**	**1,380**
Corporate functions/eliminations [1]	(202)	(29)	–	10	–	–	2,312	77
Total	**30,805**	**(583)**	**180**	**617**	**344**	**78**	**21,983**	**273,534**

[1] Includes eliminations of intra-group balances and investments.

Continues

2. Segment information (continued)

The business segment, the secondary segment, is based on the main service areas defined in the Route 101 strategy plan. As ISS does not fully allocate balances to the service areas in Facility Services, only revenue is disclosed for the different service areas within the business segment. Comparative figures have been restated accordingly.

Business (Secondary Segment)	2005	2004
External revenue		
Cleaning Services	28,315	26,556
Office Support Services	1,602	956
Property Services	10,719	8,914
Catering Services	2,487	2,003
Integrated Facility Services	2,958	1,229
Continuing operations	**46,081**	**39,658**
Japan	49	78
Health Care	310	619
Discontinued operations	**359**	**697**
Total	**46,440**	**40,355**

3. Staff costs	2005	2004
Wages and salaries	(23,191)	(20,251)
Share-based payments	(3)	(8)
Pension costs, defined benefit plans	(60)	(84)
Pension costs, defined contribution plans [1]	(1,188)	(1,092)
Social charges and other costs [1]	(6,150)	(5,161)
Staff costs	**(30,592)**	**(26,596)**
Average number of employees	295,167	267,279

Remuneration to the Board of Directors and the Executive Management Board of ISS A/S

	2005		2004	
DKK thousands	Board of Directors [2]	Executive Management Board [3]	Board of Directors	Executive Management Board
Salaries and fees	1,650	9,523	2,688	17,383
Bonus [4]	–	45,767	–	6,122
Pension	–	321	–	583
Settlement of stock options	–	100,311	–	–
Total	**1,650**	**155,922**	**2,688**	**24,088**

[1] In the 2004 figures, DKK 224 million has been reclassified from Social charges and other costs to Pension costs, defined contribution plans.
[2] Following the acquisition of ISS A/S by FS Funding A/S, the members of the Board of Directors of ISS A/S stepped down at an Extraordinary General Meeting on May 27, 2005. The Board of Directors of FS Funding A/S, the parent company of ISS A/S, were appointed to the Board of Directors. No remuneration was paid in 2005 to newly appointed members of the Board of Directors.
[3] Effective July 1, 2005, the members of the Executive Management Board of ISS A/S were transferred to ISS Management A/S and entered into employment agreements with ISS Management A/S. No remuneration was paid by ISS A/S to its Managing Director in the period July 1 – December 31, 2005.
[4] The bonus paid to members of the Executive Management Board of ISS A/S in 2005 consisted of a transaction- and stay-on bonus of approximately DKK 37 million and an EVA bonus of approximately DKK 8 million (2004: DKK 6 million).

4. Share-based payments

Share-based payments comprise warrants and options.

Warrants

In the period from 1999 to 2003, ISS issued warrants to senior managers under five warrant programs. The warrants were granted to senior managers on the basis of their position and potential after being nominated by their executive manager. The warrants were granted "out-of-the-money", i.e. the subscription price was higher than the quoted market price of the ISS share on the Copenhagen Stock Exchange at the time of subscription, and were not exercisable during a period of at least two years following the date of the grant.

The warrants were exercisable at specific dates within the exercise periods. In addition, the holders had the right to an extraordinary exercise of the warrants under certain circumstances, e.g. if the composition of owners of the ISS was changed in instances where – according to the Danish Securities Trading Act – the acquirer was under an obligation to submit a purchase offer to the remaining shareholders of ISS; or if ISS resolved to de-list the shares of ISS from the Copenhagen Stock Exchange.

On May 13, 2005, FS Funding A/S, the holding company set up by EQT and Goldman Sachs Capital Partners, announced its mandatory tender offer (the "Mandatory Tender Offer") to the shareholders of ISS A/S to acquire the shares of ISS at a price of DKK 465 per share (the "Offer Price"). Consequently, eligible warrant holders were entitled to exercise their warrants during a three-month period following the announcement. Effective June 21, 2005, ISS A/S was de-listed from the Copenhagen Stock Exchange, and accordingly, the eligible warrant holders were entitled to exercise their warrants during a three-month period following the de-listing. Thus the warrant holders had the opportunity to exercise their warrants in the period from May 13 – September 21, 2005 (the "Extraordinary Exercise Period").

In accordance with the terms of the warrant programs, the exercise price of warrants issued by ISS has not been adjusted for payments of the ordinary dividends paid in 2003, 2004 and 2005, nor has it been adjusted following the payment of interim dividends to FS Funding A/S of DKK 1,194 million in July 2005, DKK 4,400 million in August 2005 and DKK 1,400 million in November 2005. For further information about the terms and conditions of the warrant programs, please refer to ISS's Articles of Association.

1999 Warrant program
At January 1, 2005, 707,000 warrants were outstanding under the 1999 Warrant program. The subscription price ranged from DKK 547 to DKK 861 and the warrants were exercisable for a period of 30 days following the announcement of the annual results for the years 2002-2005. During the Extraordinary Exercise Period, the outstanding warrants under the program were "out-of-the-money". In 2005, 44,000 warrants were forfeited and at December 31, 2005, 663,000 warrants were outstanding under the program. The outstanding warrants are exercisable within a period of 30 days following the announcement of ISS's annual results for 2005.

2000 Warrant program
At January 1, 2005, 343,000 warrants were outstanding under the 2000 Warrant program. The subscription price ranged from DKK 514 to DKK 522 and the warrants were exercisable for a period of 30 days following the announcement of the annual results for the years 2003-2006. During the Extraordinary Exercise Period, the outstanding warrants under the program were "out-of-the-money". In 2005, 21,000 warrants were forfeited and at December 31, 2005, 322,000 warrants were outstanding under the program. The outstanding warrants are exercisable within a period of 30 days following the announcement of ISS's annual results for 2005 and 2006.

2001 Warrant program
At January 1, 2005, 410,539 warrants were outstanding under the 2001 Warrant program. The subscription price ranged from DKK 418 to DKK 440 and the warrants were exercisable for a period of 30 days following the announcement of the annual results for the years 2004-2007. During the 30-day period following the announcement of the results for 2004, 1,000 warrants and 3,000 warrants were exercised at prices of DKK 418 and DKK 440, respectively.

During the Extraordinary Exercise Period following the announcement of the Mandatory Tender Offer, ISS offered the eligible warrant holders under this program to settle their warrants at an amount equal to the difference between the Offer Price and the exercise price. In total, ISS paid approximately DKK 6 million to settle 69,329 warrants with an exercise price of DKK 418 and 112,400 warrants with an exercise price of DKK 440 under this program. Warrant holders who did not opt for cash settlement exercised a total of 42,996 warrants at a price of DKK 418 per share and 125,150 warrants at a price of DKK 440 per share and subsequently sold their shares to FS Funding A/S at the Offer Price. The net payment related to the exercise of warrants and subsequent purchase of shares amounted to DKK 5 million.

56,664 warrants were forfeited in 2005 and at December 31, 2005, no warrants were outstanding under the 2001 Warrant program.

Continues

January 1 – December 31. Amounts in DKK millions

4. Share-based payments (continued)

2002 Warrant program
At January 1, 2005, 285,178 warrants were outstanding under the 2002 Warrant program. The warrants were exercisable at a price of DKK 247 within a period of 30 days following the announcement of the annual results for the years 2005-2008.

During the Extraordinary Exercise Period following the announcement of the Mandatory Tender Offer, ISS offered the eligible warrant holders under this program to settle their warrants at an amount equal to the difference between the Offer Price and the exercise price. In total, ISS paid approximately DKK 36 million to settle 166,671 warrants under this program. Warrant holders that did not opt for cash settlement exercised a total of 94,671 warrants and subsequently sold their shares to FS Funding A/S at the Offer Price. The net payment related to the exercise of warrants and subsequent purchase of shares amounted to approximately DKK 21 million.

23,836 warrants were forfeited in 2005 and at December 31, 2005, no warrants were outstanding under the 2002 Warrant program.

2003 Warrant program
At January 1, 2005, 274,500 warrants were outstanding under the 2003 Warrant program. The warrants were exercisable at a price of DKK 319 within a period of 30 days following the announcement of the annual results for the years 2006-2009.

During the Extraordinary Exercise Period following the announcement of the Mandatory Tender Offer, ISS offered the eligible warrant holders under this program to settle their warrants at an amount equal to the difference between the Offer Price and the exercise price. In total, ISS paid approximately DKK 23 million to settle 158,000 warrants under this program. Warrant holders who did not opt for cash settlement exercised a total of 104,500 warrants and subsequently sold their shares to FS Funding A/S at the Offer Price. The net payment related to the exercise of warrants and subsequent purchase of shares amounted to approximately DKK 15 million.

12,000 warrants were forfeited in 2005 and at December 31, 2005, no warrants were outstanding under the 2003 Warrant program.

Stock options

Stock options granted to members of the Executive Management Board
At January 1, 2005, the members of the Executive Management Board of ISS (the "EMB") held a total of 525,000 stock options and former members of the EMB held a total of 137,500 stock options. The stock options were granted "out-of-the-money", i.e. the subscription price was higher than the quoted market price of the ISS A/S share on the Copenhagen Stock Exchange at the time of subscription, and were not exercisable during a period of at least two years following the date of the grant.

Stock options held by members of the Executive Management Board and certain former executive officers of ISS A/S at January 1, 2005

Exercise period	Exercise price	Adjusted Exercise price [1]	Settlement [2]	Stock options held by executive officers employed by ISS as at January 1, 2005 [3]	Stock options held by former executive officers of ISS	Stock options settled in 2005	Stock options forfeited or expired in 2005
1.1.02-31.12.05	385	364	Intrinsic value	25,000	50,000	75,000	–
1.1.02-31.12.05	650	621	Intrinsic value	25,000	75,000	–	100,000
1.1.03-31.12.06	470	450	Intrinsic value	25,000	–	25,000	–
1.1.04-31.12.07	500	479	Intrinsic value	25,000	–	–	25,000
1.1.04-31.12.08	585	562	Intrinsic value	25,000	12,500	–	37,500
1.1.03-31.12.08	480	462	Intrinsic value	25,000	–	25,000	–
1.1.06-31.12.09	315	302	Black-Scholes	125,000	–	125,000	–
1.1.07-31.12.10	319	310	Black-Scholes	125,000	–	125,000	–
1.1.08-31.12.11	340	337	Black-Scholes	125,000	–	125,000	–

[1] The exercise price of the stock options has been adjusted for dividends in excess of DKK 2 per share (adjusted for inflation) and the issue of employee shares below market price.

[2] The stock options were settled applying the method described in the terms of the relevant stock option certificates. Settlement under the intrinsic value method entitles the stock option holder to receive an amount equivalent to the positive difference between the exercise price and DKK 461.54, which was equivalent to the average share price quoted on the Copenhagen Stock Exchange during a 20-day period prior to May 11, 2005. Settlement under the Black-Scholes model entitles the holder to receive an amount equal to the estimated fair value of the stock option according to the Black-Scholes model. The Board of Directors of ISS A/S engaged an Investment Bank to calculate the Black-Scholes value of the options. A share price of DKK 465, a risk free interest rate of 3.5% and a volatility of 40.5% was assumed in the model.

[3] Effective July 1, 2005, the executive officers were transferred from ISS A/S to ISS Management A/S.

Continues

4. Share-based payments (continued)

The holders were offered to settle their stock options when FS Funding A/S announced the completion of the public tender offer to the Copenhagen Stock Exchange. Subsequently, 500,000 stock options were settled in cash for a total consideration of approximately DKK 105 million. The right to exercise 162,500 was waived by the holders. No stock options were granted to the EMB in 2005 and at December 31, 2005, no stock options were outstanding.

Stock options granted to members of the Board of Directors of ISS A/S
Directors serving on the Board of Directors of ISS as of January 1, 2005 held a total of 27,500 stock options. The stock options entitle the holder to acquire ISS A/S shares from ISS A/S at a price of DKK 598 per share within a period of 30 days following the announcement of the financial results for each of the years 2002-2006. In accordance with the terms of the stock option agreements between the holders and ISS A/S, the exercise price of stock options issued by ISS A/S has not been adjusted for payments of the ordinary dividends paid in 2003, 2004 and 2005, nor has it been adjusted following the payment of interim dividends to FS Funding A/S of DKK 1,194 million in July 2005, DKK 4,400 million in August 2005 and DKK 1,400 million in November 2005.

At the Extraordinary General Meeting on May 27, 2005, the members of the Board of Directors of ISS stepped down following the change of ownership and new members were elected to the Board. No further stock options were granted to members of the Board of Directors and no stock options were exercised during 2005 and at December 31, 2005, former members of the Board of Directors held a total of 27,500 stock options. The outstanding stock options are exercisable within a period of 30 days following the announcement of ISS's annual results for 2005 and 2006.

Accounting

In accordance with the transitional provisions of IFRS 2 Share-based Payment, ISS applies IFRS 2 to grants of warrants and stock options that were granted after November 7, 2002, and had not yet vested at January 1, 2005.

Share-based payments within the scope of IFRS 2
ISS A/S granted 767,000 warrants to certain managers and employees in June 2003 and November 2003 with vesting dates after January 1, 2005. Following rulings by the Danish Supreme Court in 2004 177,000 of these warrants must be considered vested at the time of grant contrary to the conditions set out in the grant. The fair value of the 590,000 warrants not considered vested at grant must be expensed in the income statement over the vesting period. In 2005 DKK 3 million was expensed in the income statement (2004: DKK 8 million). However, due to the announcement of the Mandatory Tender Offer the warrants vested at the beginning of the Extraordinary Exercise Period, i.e. earlier than was assumed at the time of grant. The holders exercised their right to exercise or settle their warrants during the Extraordinary Exercise Period. Consequently, an additional amount of DKK 20 million that otherwise would have been recognized for services received over the remainder of the vesting period was expensed in the income statement in 2005 in Other income and expenses.

Share-based payments not within the scope of IFRS 2
Stock options and warrants, other than the warrants mentioned above, are not within the scope of IFRS 2, and the fair value of these instruments has not been expensed in the income statement.

Exercise and settlement warrants and stock options
Settlement of warrants and stock options, net of tax, reduced equity by DKK 171 million. The settlement included cash settlement of DKK 131 million, net of tax, and net purchase of treasury shares of DKK 170 million, which was offset by the issue of 367,317 new ISS shares at an average share price of DKK 354 per share increased equity by DKK 130 million.

Valuation
Taking into consideration that
- the outstanding warrants were "out-of-the-money" during the exercise periods in 2005
- ISS has subsequently paid interim dividends totalling DKK 7 billion or approximately DKK 149 per share, which – other things being equal – would reduce the share price by DKK 149 per share and
- the exercise price of outstanding warrants, according to their terms, will not be adjusted for dividends

ISS believes that the value of the outstanding warrants was insignificant at December 31, 2005.

January 1 – December 31. Amounts in DKK millions

5. Fees to ISS's auditors	2005	2004
KPMG		
Audit fees [1]	24	25
Other audit-related services	9	8
Tax and VAT advisory services	8	6
Other services [2]	20	26
Total KPMG	**61**	**65**
Deloitte [3]		
Audit fees [1]	0	1
Other audit-related services	–	1
Other services	2	0
Total Deloitte	**2**	**2**
Total fees to ISS's auditors	**63**	**67**

[1] Audit fees comprised audits of the consolidated and local Annual Reports.
[2] Other services mainly comprised work related to acquisitions such as financial and tax due diligence.
[3] Deloitte resigned as ISS's auditors at the Annual General Meeting in April 2005.

6. Other income and expenses, net	2005	2004
Gain on sale of Health Care operations [1]	237	–
Gain on sale of activities in Japan	10	–
Other	–	(6)
Discontinued operations	**247**	**(6)**
Costs related to the change of ownership of ISS [2]	(203)	–
Group Restructuring Project [3]	(224)	–
Discontinuation of German hospital cleaning services business [4]	(35)	–
Costs related to downscaling and divestment of Damage Control units [5]	(59)	–
Loss on divestment of building maintenance business in the United Kingdom	(9)	–
Gain on sale of Private Finance Initiative stake in the United Kingdom [6]	33	–
Loss on discontinuation of aviation businesses	(5)	(4)
Redundancy payments relating to organizational adjustments	–	(15)
Gain on sale of properties	5	5
Other	(36)	(17)
Continuing operations	**(533)**	**(31)**
Other income and expenses, net	**(286)**	**(37)**

[1] In February 2005 ISS sold its Health Care operations and its 49% interest in CarePartner to a joint venture, now named Aleris Holding AB ("Aleris"), owned by ISS, EQT III Limited and Aleris's management, and realized a gain of DKK 123 million. At the end of June 2005, ISS sold its interest in this joint venture to EQT III Limited, and realized a further gain of DKK 114 million.
[2] Costs related to the change of ownership of ISS included fees to financial advisors, lawyers, auditors, financial institutions, insurance companies etc. Furthermore, it included a stay-on-bonus to the Executive Management Board and certain other key employees of ISS Management A/S, a settlement of EVA-bonus accounts and a transaction-related bonus to the Executive Management Board of ISS Management A/S.
[3] In the autumn of 2005, ISS initiated a Group Restructuring Project comprising certain organizational and structural changes to reduce ongoing costs in a number of countries. The project included physical relocations, termination of leaseholds, redundancy payments, and contract restructuring. The Board of Directors approved an expenditure of DKK 250 million, of which DKK 224 million was recognized in Other income and expenses, net in 2005. The remaining DKK 26 million is expected to be expensed in 2006.
[4] ISS's decision to discontinue its hospital cleaning services business in Germany through a phase-out of the remaining customer contracts resulted in a DKK 35 million provision for termination costs, primarily redundancy payments.
[5] A downsizing of ISS's damage control activities in Denmark, Norway and Sweden and the divestment of damage control activities in Israel and Sweden led to costs of DKK 59 million.
[6] Sale of ISS's interest (PFI-stake) in Catalyst Healthcare Holdings Ltd. which operates certain facilities at Calderdale Royal Hospital in the United Kingdom resulted in a gain of DKK 33 million.

January 1 – December 31. Amounts in DKK millions

7. Net finance costs	2005	2004
Interest income etc.	116	101
Interest income from affiliates	0	–
Gain from settlement of interest rate swaps [1]	45	–
Foreign exchange gain	4	1
Financial income	**165**	**102**
Interest expenses etc.	(665)	(428)
Interest expenses to affiliates	(0)	–
Foreign exchange loss	(21)	(9)
Financial expenses	**(686)**	**(437)**
Net finance costs	**(521)**	**(335)**

[1] The total gain from the settlement of interest rate swaps amounted to DKK 514 million. The remaining DKK 469 million will be included in the income statement in the financial years 2006-2014 corresponding to the remaining duration of the bond loans (see note 26, Long-term debt).

January 1 – December 31. Amounts in DKK millions

8. Taxes	2005			2004		
	Income taxes	Tax payables/ (receivables)	Deferred tax liabilities/ (assets)	Income taxes	Tax payables/ (receivables)	Deferred tax liabilities/ (assets)
Balance at January 1	–	137	8	–	163	136
Foreign exchange adjustments	–	4	(2)	–	(3)	1
Additions from acquired companies, net	–	51	121	–	14	(63)
Adjustments relating to prior years, net	(9)	9	–	(6)	3	3
Tax regarding share-based payments	–	7	–	–	2	–
Tax regarding warrants, options and employee shares	–	(44)	–	–	(16)	–
Tax regarding other equity movements	–	(80)	(20)	–	(9)	2
Tax on profit before impairment/ amortization of intangibles [1]	(500)	658	(158)	(548)	644	(96)
Subtotal	**(509)**	**742**	**(51)**	**(554)**	**798**	**(17)**
Tax effect of goodwill impairment and write-down and amortization of customer contracts	59	(1)	(58)	34	(59)	25
Reclassification of joint taxation contribution	–	99	–	–	–	–
Tax paid	–	(898)	–	–	(602)	–
Taxes at December 31	**(450)**	**(58)**	**(109)**	**(520)**	**137**	**8**
Tax receivable/deferred tax assets		(139)	(645)		(103)	(603)
Tax payable/deferred tax liabilities		81	536		240	611
Income tax, net/deferred tax, net		**(58)**	**(109)**		**137**	**8**

Computation of effective tax rate	2005	2004
Statutory income tax rate in Denmark	28.0 %	30.0 %
Foreign tax rate differential, net	0.9 %	0.7 %
	28.9 %	30.7 %
Non-tax deductible expenses less non-taxable income [2]	(1.1)%	1.5 %
Adjustments relating to prior years, net	0.5 %	0.3 %
Previously unrecognized tax assets	(0.3)%	(1.1)%
Effect of changes in tax rates	0.3 %	0.3 %
Tax impact of result after tax in associates	(0.4)%	(0.6)%
Effective tax rate (excluding effect from impairment/amortization of intangibles)	**27.9 %**	**31.1 %**

[1] Intangibles cover the value of goodwill and customer contract portfolios and related customer relationships.

[2] In 2005, Non-tax deductible expenses less non-taxable income included the effect of tax free gain regarding the sale of Health Care operations and costs related to the change of ownership of ISS in 2005.

January 1 – December 31. Amounts in DKK millions

9. Goodwill impairment and write-down	2005	2004
Impairment	(111)	(306)
Write-down	(80)	(38)
Goodwill impairment and write-down	**(191)**	**(344)**

Goodwill impairment of DKK 111 million related mainly to the German Facility Service business. For a further description see note 16, Impairment tests. Goodwill write-down of DKK 80 million related mainly to the winding-up and divestment of part of the Swedish damage control activities.

10. Earnings per share

	Continuing operations		Discontinued operations		Total	
	2005	2004	2005	2004	2005	2004
Profit before impairment/ amortization of intangibles	**1,017**	**1,170**	**264**	**55**	**1,281**	**1,225**
Net profit for the year attributable to the equity holders of ISS	**672**	**763**	**263**	**54**	**935**	**817**
Weighted average number of shares						
Number of shares at 1 January					47,335,000	44,309,894
Treasury shares, average					(324,533)	(226,925)
Share issue, average					76,524	155,771
Share issue to employees, average					–	79,354
Weighted average number of shares					**47,086,991**	**44,318,094**
Dilutive effect of share options and warrants granted [1)]					82,594	50,722
Weighted average number of shares (diluted)					**47,169,585**	**44,368,816**
Earnings per share before impairment/ amortization of intangibles, DKK	21.6	27.0	5.6	0.7	27.2	27.7
Basic earnings per share, DKK	14.3	17.7	5.6	0.7	19.9	18.4
Diluted earnings per share, DKK	14.2	17.7	5.6	0.7	19.8	18.4

[1)] The calculation of the dilutive effect of stock options and warrant granted is based on the assumptions that (i) all eligible stock options and warrants were settled on May 13, 2005; (ii) the average share price was DKK 385 per share, representing the average of the share price of DKK 305.5 per share at January 1, 2005, and the offer price of DKK 465 per share. Please see note 4, share-based payments for a further description of the settlement of share-based payments.

11. Changes in working capital	2005	2004
Changes in inventories	(7)	(9)
Changes in trade receivables etc.	(553)	28
Changes in payables etc.	326	167
Changes in working capital	**(234)**	**186**

January 1 – December 31. Amounts in DKK millions

12. Acquisition and divestment of businesses

ISS made 102 acquisitions during 2005 (95 during 2004). The total purchase price amounted to DKK 2,944 million (DKK 4,204 million in 2004). The total annual revenue of the acquired businesses is estimated at approximately DKK 4,247 million (DKK 6,095 million in 2004) based on expectations at the time of acquisition. The balance sheet items etc. relating to acquisitions and divestments (including adjustments to acquisitions and divestments in prior years) are specified below:

	Total acquisitions [1]		
Acquisitions and divestments in 2005	Net book value before takeover	Fair value at takeover	Total divestments
Goodwill	3	–	(769)
Customer contract portfolios and related customer relationships	–	884	(21)
Other non-current assets	236	222	(212)
Trade receivables	647	691	(150)
Other current assets	473	453	(108)
Other provisions	(35)	(33)	–
Pensions, deferred tax liabilities and minorities	(34)	(186)	35
Long-term debt	(75)	(76)	14
Short-term debt	(146)	(148)	395
Other current liabilities	(743)	(794)	167
Net identifiable assets	**326**	**1,013**	**(649)**
Goodwill [2]		2,020	–
Loss/(gain) on divestment of businesses		–	(215)
Acquisition costs, net of tax [3]		(89)	–
Purchase/(sales) price		**2,944**	**(864)**
Cash and cash equivalents in acquired/divested companies		(314)	42
Net purchase/(sales) price		**2,630**	**(822)**
Changes in deferred payments		(140)	(23)
Changes in prepayments regarding acquisitions in the coming year		(12)	–
Acquisition costs paid, net of tax		92	–
Net payments regarding acquisition/divestment of businesses		**2,570**	**(845)**

The amount of the acquiree's profit or loss since the acquisition date included in the income statement for the period is not disclosed. Such disclosure is impracticable, because acquired companies are typically merged with (or activities transferred to) existing companies shortly after completion of the acquisition.

[1] In 2005, no acquisition accounted for more than 2% of ISS revenue on an individual basis.
[2] For description of the factors that contributed to a recognition of goodwill, see note 37, Transition to IFRS.
[3] Acquisition costs, net of tax, amounting to DKK 89 million related mainly to the acquisitions of EastPoint Group in Hong Kong, Grangemore Landscapes in Ireland, Hongrun in China and Proser in Turkey.

Continues

January 1 – December 31. Amounts in DKK millions

12. Acquisition and divestment of businesses (continued)

	Acquisition of Engel [1]		Acquisition of Grupo Unica [1]		Total acquisitions		
Acquisitions and divestments in 2004	Net book value before takeover	Fair value at takeover	Net book value before takeover	Fair value at takeover	Net book value before takeover	Fair value at takeover	Total divestments
Goodwill	74	–	144	–	534	–	(9)
Customer contract portfolios and related customer relationships	–	275	–	205	–	1,186	–
Other non-current assets	117	113	15	53	524	396	(45)
Trade receivables	77	77	333	333	995	978	(8)
Other current assets	114	119	14	14	482	463	(4)
Other provisions	–	(5)	(34)	(34)	(39)	(81)	–
Pensions, deferred tax liabilities and minorities	(5)	(83)	(7)	(7)	(23)	(298)	3
Long-term debt	–	–	(72)	(72)	(143)	(147)	–
Short-term debt	–	–	(137)	(137)	(328)	(360)	2
Other current liabilities	(233)	(239)	(193)	(192)	(1,076)	(1,154)	2
Net identifiable assets	**144**	**257**	**63**	**163**	**926**	**983**	**(59)**
Goodwill [2]		1,286		212		3,322	–
Loss/(gain) on divestment of business		–		–		–	(1)
Acquisition costs, net of tax [3]		(41)		(11)		(101)	–
Purchase/(sales) price		**1,502**		**364**		**4,204**	**(60)**
Cash and cash equivalents in acquired/ divested companies		(95)		(2)		(327)	–
Net purchase/(sales) price [4]		**1,407**		**362**		**3,877**	(60)
Changes in deferred payments		–		–		(63)	24
Changes in prepayments regarding acquisitions in the coming year		–		–		(113)	–
Acquisition costs paid, net of tax [5]		41		11		152	–
Net payments regarding acquisition/ divestment of businesses		**1,448**		**373**		**3,853**	**(36)**

The amount of the acquiree's profit or loss since the acquisition date included in the income statement for the period is not disclosed, since such disclosure is impracticable, as acquired companies are typically merged with (or activities transferred to) existing companies shortly after completion of the acquisition.

[1] In 2004 only the acquisitions of Engel and Grupo Unica accounted for more than 2% of ISS revenue on an individual basis.
[2] For description of the factors that contributed to a recognition of goodwill, see note 37, Transition to IFRS.
[3] Acquisition costs, net of tax, amounting to DKK 101 million related mainly to the acquisitions of Engel in Finland, Grupo Unica in Spain, Nobis Beteilligungen in Germany, and SEDE Holding in France.
[4] The purchase price, assuming the acquired company had no cash and no debt, was DKK 1,428 million and DKK 542 million for Engel and Grupo Unica, respectively.
[5] Including payments regarding integration costs from acquisitions made before January 1, 2004.

Continues

January 1 – December 31. Amounts in DKK millions

12. Acquisition and divestment of businesses (continued)	2005	2004
Pro forma revenue [1]		
Revenue recognized in the income statement	46,440	40,355
Adjustment, assuming all acquisitions in the year were included as of January 1	1,935	2,876
Revenue for ISS assuming all acquisitions in the year were included as of January 1	48,375	43,231
Adjustment, assuming all divestments signed in the year were carried out as of January 1	(645)	(33)
Revenue for ISS assuming all acquisitions and divestments in the year were carried out as of January 1	**47,730**	**43,198**
Pro forma operating profit before other items [1]		
Operating profit before other items recognized in the Income Statement	2,650	2,260
Adjustment, assuming all acquisitions in the year were included as of January 1	140	159
Operating profit before other items for ISS assuming all acquisitions in the year were included as of January 1	2,790	2,419
Adjustment, assuming all divestments signed in the year were carried out as of January 1	(70)	(7)
Operating profit before other items for ISS assuming all acquisitions and divestments in the year were carried out as of January 1	**2,720**	**2,412**

[1] The adjustment for revenue and operating profit before other items assuming all acquisitions and divestments were included as of January 1 is based on estimates of local ISS management in the respective jurisdictions in which such acquisitions and divestments occurred at the times of such acquisitions and divestments or actual results where available. Synergies from acquisitions are not included for periods in which such acquisitions were not controlled by ISS. These adjustments and the computation of total revenue and operating profit before other items calculated on a pro forma basis based on such adjustments are presented for informational purposes only and have not been audited. This information does not represent the results ISS would have achieved had the divestments and acquisitions during the year occurred on January 1. In addition, the information should not be used as the basis for or prediction of any annualized calculation.

During 2005, ISS made 102 acquisitions

Company	Country	Income statement consolidated from	Percentage interest	Annual revenue [1]	Number of employees [1]
Jakober AG	Switzerland	January	100%	34	39
Motivator	Denmark	January	Activities	13	19
Reif Rein Reinigungs- und Umweltschutz GmbH	Austria	January	100%	55	250
Alois Haltner Gebäudereinigungs AG	Switzerland	January	100%	9	100
Vandezande NV	Belgium	January	100%	72	500
Edens Gave	Norway	January	Activities	12	18
Facility Services RUS LLC	Russia	January	100%	22	600
Mitchell & Struthers Ltd.	United Kingdom	January	100%	125	350
LMCB SAS	France	January	100%	114	1,020
Siemens Service Management A/S	Denmark	January	100%	50	29
Groupe Apex	France	January	100%	95	458
Leif Hermansson Miljövård AB	Sweden	January	100%	7	5
Grangemore Landscapes Ltd.	Ireland	January	98%	70	135
Ador Chimie	France	January	Activities	1	2
Park og Landskapspleie	Norway	February	Activities	14	40
Superclean Support Services Plc.	United Kingdom	February	100%	62	630
Proser Koruma ve Güvenlik Hizmetleri A.S.	Turkey	February	70%	233	4,219
Lawn Ltd.	Hong Kong	March	100%	2	7
Mark & Miljö i Skåne AB	Sweden	March	100%	100	165
Doya Biologica SA	Spain	March	100%	26	35
Coolit Klima- und Kältetechnik GmbH	Austria	March	100%	18	18
Subtotal				**1,134**	**8,639**

[1] Unaudited approximate figures based on information available at the time of acquisition.

Continues

January 1 – December 31. Amounts in DKK millions

12. Acquisition and divestment of businesses (continued)

Company	Country	Income statement consolidated from	Percentage interest	Annual revenue [1]	Number of employees [1]
EKS Business Pte Ltd	Singapore	March	100%	2	11
Profolia SAS	France	March	100%	10	13
Satheim SAS	France	April	100%	7	10
Hongrun	China	April	60%	48	6,000
Netteco	Switzerland	April	Activities	5	40
Pharmaclean	Australia	April	Activities	6	35
Erwin Jacober AG	Switzerland	April	100%	63	130
Leni	Austria	April	Activities	5	10
Bjørknes	Norway	May	Activities	9	9
Bedriftsinterne Posttjenester	Norway	May	Activities	58	86
Pépinières de Beaufort	France	May	Activities	10	26
PSS	Portugal	May	Activities	28	407
Standby Pest Control (Holdings) Ltd.	United Kingdom	May	100%	34	65
Verhulst Beplantingswerken B.V.	Netherlands	May	100%	22	48
Oulun Puhelin	Finland	May	Activities	5	5
Kirwan Landscaping Services	Australia	May	Activities	75	316
Happy Verde	Spain	May	100%	7	22
ABC Healthcare Services	Australia	June	Activities	3	5
Ventilasjonsservice	Norway	June	Activities	13	7
Profilstädarna i Sverige AB	Sweden	June	100%	83	390
Logistikk-Support	Norway	June	Activities	10	18
Teleservice	Norway	June	Activities	10	40
Rubio & Kuschel Ltda.	Chile	June	100%	14	617
Manchester Property Care Ltd.	New Zealand	June	100%	80	900
Nature Environnement SA	France	June	100%	59	89
KASA Limpiezas S.A.	Spain	June	100%	200	2,005
Sethap SAS	France	June	100%	5	9
Stael SAS	France	June	100%	11	13
Restauration Régionale S.A.	Belgium	July	100%	48	106
Grødegaard AS [2]	Norway	July	100%	242	500
Solvognen	Denmark	July	Activities	13	28
Jarrett Hygiene Service	Australia	July	Activities	1	2
WBZ Gartengestaltung GmbH	Austria	July	100%	5	6
Megama Cleaning and Holdings Services	Israel	July	Activities	17	700
Notter Group	Switzerland	July	100%	78	69
NEGH SAS	France	July	100%	166	1,786
Top Service spol. s.r.o.	Slovakia	July	100%	4	215
Interfoon Call Centers B.V.	Netherlands	July	100%	36	193
Woko (F&B) Pte Ltd.	Singapore	July	100%	48	325
Brunner GmbH	Austria	July	100%	34	171
Thomas Cowan	Hong Kong	August	70%	2	5
Biosan	Brazil	August	100%	1	16
BBC Installationsservice	Denmark	August	Activities	46	71
Cleantec Hospitality Services Pte Ltd.	India	August	100%	21	2,005
Inhouse (Proffice)	Sweden	August	Activities	67	185
Net y Bien S.I.	Spain	August	100%	72	983
Green Science Co. Ltd.	Thailand	August	Activities	1	9
Kai Thor Catering A/S	Denmark	September	100%	19	19
Holmdrup Kloakservice	Denmark	September	Activities	10	15
Anlægsgartneriet Hedelund	Denmark	September	Activities	13	25
Subtotal				**2,960**	**27,399**

[1] Unaudited approximate figures based on information available at the time of acquisition.
[2] The acquisition comprises the remaining 52% stake in Grødegaard not already owned by ISS.

Continues

January 1 – December 31. Amounts in DKK millions

12. Acquisition and divestment of businesses (continued)

Company	Country	Income statement consolidated from	Percentage interest	Annual revenue [1]	Number of employees [1]
Kartharoteckniki S.A.	Greece	September	100%	55	400
Mina Vara / ESS Puhatus	Estonia	September	51%	82	1,500
Loboal Conseils SARL	France	September	100%	31	208
JWN Data A/S and Media Service A/S	Denmark	October	100%	36	46
SVIP Oy	Finland	October	100%	9	23
PHM	France	October	Activities	1	2
Mestarit Yhtiö Oy	Finland	October	100%	7	6
Raypath-Clean a.s.	Slovakia	October	100%	9	308
Peter Borgesen	Norway	October	Activities	6	10
Cynogarde SAS	France	October	100%	18	89
Sodepo Empresa de Trabalho Temporário, SA	Portugal	October	100%	37	480
Van Kerkhoven BVBA	Belgium	October	100%	14	13
Irvak & LGT AG	Switzerland	October	100%	10	34
Niaga Suria Group	Malaysia	October	Activities	6	110
Desipraga Soiedade de Desinfecção e Desinfestacão, Lda.	Portugal	October	100%	6	21
Quimicoll	Spain	October	Activities	3	10
U.S. Security Ltd.	Ireland	November	100%	23	200
Helco, Hellfritz AG	Switzerland	November	100%	15	200
Nieow Economisch Onderhoudsbedrijf NV	Belgium	November	100%	69	371
Estera Oy	Finland	November	100%	76	89
Complete FM	Ireland	November	Activities	8	10
Miva Bohemia s.r.o.	Czech Republic	November	100%	54	1,937
Segula Outsourcing SAS	France	November	100%	38	137
Miljöbyggarna i Borås AB	Sweden	November	100%	31	34
Personalhuset AS	Norway	November	90%	143	55
EastPoint Group Ltd.	Hong Kong	November	100%	233	3,394
Markbolaget i Uppsala AB	Sweden	December	100%	15	14
Cityplant	Denmark	December	Activities	0	0
Nihon Leasekin	Hong Kong	December	Activities	3	19
Hidroplant	Spain	December	100%	10	38
Aker Kværner Industrielt Vedlikehold AS	Norway	December	100%	239	435
Total				**4,247**	**37,592**

[1] Unaudited approximate figures based on information available at the time of acquisition.

Continues

January 1 – December 31. Amounts in DKK millions

12. Acquisition and divestment of businesses (continued)

During 2005, ISS divested the following 18 companies/activities

Company/activity	Country	Month of disposal	Annual revenue [1]
Fjordkøkkenet A/S	Denmark	January	8
Hotel cleaning activities	Finland	April	78
Concord activities	United Kingdom	April	48
Waste Services	Denmark	April	6
Sand & Vattanbläst (Tyringe)	Sweden	May	10
Strålskyddsverksamhet activities outside Sweden (Damage Control)	Sweden	May	13
Health Care	Sweden	June [2]	619
Aquagest	France	July	100
Special Service Unit	Finland	July	7
Damage Control activities in Vienna	Germany	July	13
Bussan ISS Holding Co. Ltd (incl. ISS Nesco Ltd.)	Japan	September [2]	78
Print and Copy Services	Finland	September	5
Håndværkerservice	Denmark	September	22
Skadeservice (Damage Control)	Sweden	October	131
Restoration Engineering (Damage Control)	Israel	November	8
Mobile Catering	Sweden	November	24
Leisure Business Segment	Sweden	November	17
ÖHS (Damage Control)	Sweden	December	23
Total			**1,210**

[1] Unaudited approximate figures based on information available at the time of divestment.
[2] See note 36, Discontinued operations.

	Total acquisitions	
Acquisitions and divestments in 2006 [1]	Net book value before takeover	Fair value at takeover
Goodwill	–	–
Customer contract portfolios and related customer relationships	–	22
Other non-current assets	9	9
Trade receivables	13	13
Other current assets	12	12
Pensions, deferred tax liabilities and minorities	(1)	(6)
Short-term debt	(5)	(5)
Other current liabilities	(16)	(17)
Net identifiable assets	**12**	**28**
Goodwill		60
Purchase price		**88**
Cash and cash equivalents in acquired companies		(8)
Net purchase price		**80**

[1] In accordance with usual procedures for purchase price allocation, opening blances for acquisitions subsequent to January 31, 2006, are not yet available.

Continues

January 1 – December 31. Amounts in DKK millions

12. Acquisition and divestment of businesses (continued)

From January 1 to March 31, 2006, ISS made 34 acquisitions [1]

Company	Country	Income statement consolidated from	Percentage interest	Annual revenue [2]	Number of employees [2]
Ejendomsforeningen Danmark	Denmark	January	Activities	0	0
ASM	Portugal	January	Activities	5	17
Sinon International srl	Romania	January	100%	10	365
Sistems Horticulture	Australia	January	Activities	12	35
Insinööritoimisto Frenta Oy	Finland	January	100%	3	4
PH-Palvelut Oy	Finland	January	Activities	3	6
Vaktmestersentralen AS	Norway	January	100%	12	28
Matpartner	Norway	January	Activities	21	20
Aquaris	Norway	January	Activities	5	4
Planteservice	Norway	January	Activities	6	11
Planterike	Norway	January	Activities	2	4
Raise Contact Center	Denmark	January	Activities	17	248
Terrakultur Stockholm AB and Codeum Finans AB	Sweden	January	100%	26	65
Agro Top Services SARL	France	January	100%	7	15
Pegasus Security Holdings Limited	United Kingdom	January	100%	427	1,581
MPA Securitas Limited	Thailand	January	100%	50	3,500
National Services Company B.V.	Netherlands	January	100%	20	86
Cleaning Plus	New Zealand	February	Activities	34	370
Hygeco SAS	France	February	100%	12	14
Charlestown SA	France	February	100%	159	323
Fruktbilen i Stockholm AB	Sweden	February	100%	6	10
Mats & Gun Wahlin AB	Sweden	February	100%	1	2
Optimal Group	Czech Republic	February	100%	74	415
Janco Pest Management	Australia	February	Activities	1	2
Bluebell Hospitality	India	February	Activities	2	90
Grundell	Finland	February	100%	21	80
B&S Virityspalvelu	Finland	February	Activities	8	16
Tempo Services Ltd. [3]	Australia	February	100%	2,900	21,000
Coffee-team	Norway	March	Activities	6	4
EW Service Group	Switzerland	March	Activities	4	30
OS Verktakar	Iceland	March	Activities	2	12
Mandresa AB	Sweden	March	100%	43	29
JB Security Ltd.	Ireland	March	100%	14	54
Merusa	Spain	March	100%	57	239
Total				**3,970**	**28,679**

1) Includes all acquisitions made prior to March 31, 2006, regardless of consolidation date.
2) Unaudited approximate figures based on information available at the time of acquisition.
3) The acquisition comprises the remaining 51% shares in Tempo Services Ltd., not already owned by ISS.

January 1 – December 31. Amounts in DKK millions

13. Investments in non-current assets	2005	2004
Purchase of intangible assets[1] and property, plant and equipment	(683)	(708)
Proceeds on sales of intangible assets and property, plant and equipment	134	125
Investments in intangible assets and property, plant and equipment, net	**(549)**	**(583)**
Investments in securities, net	542	(548)
Investments in other financial assets, net	(120)	(53)
Investments in financial assets, net	**422**	**(601)**

[1] Excluding goodwill and customer contract portfolios and related customer relationships.

14. Financial payments, net	2005	2004
Long-term and short-term debt at January 1	(11,170)	(7,065)
Foreign exchange and other adjustments	(110)	7
Additions from acquired and divested companies, net	185	(505)
Fair value adjustment related to swap	(469)	–
Reversal of fair value adjustment related to swap [1]	222	(249)
Recognition of financial lease	(162)	–
Financial payments related to receivable from affiliate [2]	(41)	–
Long-term and short-term debt at December 31	17,404	11,170
Financial payments, net	**5,859**	**3,358**

[1] For further information see note 32, Derivatives.
[2] Receivable from FS Funding A/S.

January 1 – December 31. Amounts in DKK millions

15. Intangible assets

	Goodwill	Customer contracts [1]	Software and other intangible assets	Total
2005				
Cost at January 1, 2005	15,690	1,186	429	17,305
Foreign exchange adjustments	124	11	1	136
Additions [2]	2,044	–	58	2,102
Additions from acquired companies, net	–	866	14	880
Disposals	(849)	–	(44)	(893)
Transfer from Property, plant and equipment	–	–	3	3
Cost at December 31, 2005	**17,009**	**2,063**	**461**	**19,533**
Impairment, write-down and amortization at January 1, 2005	(306)	(78)	(254)	(638)
Foreign exchange adjustments	–	(1)	(0)	(1)
Amortization	–	(201)	(78)	(279)
Amortization from acquired companies, net	–	3	(9)	(6)
Impairment	(111)	–	–	(111)
Write-down	(80)	–	(24)	(104)
Disposals	80	–	40	120
Transfer from Property, plant and equipment	–	–	(1)	(1)
Impairment, write-down and amortization at December 31, 2005	**(417)**	**(277)**	**(326)**	**(1,020)**
Carrying amount at December 31, 2005	**16,592**	**1,786**	**135**	**18,513**
2004				
Cost at January 1, 2004	12,465	–	420	12,885
Foreign exchange adjustments	(16)	–	1	(15)
Additions [2]	3,289	–	88	3,377
Additions from acquired companies, net	–	1,186	31	1,217
Disposals	(48)	–	(74)	(122)
Transfer to Property, plant and equipment	–	–	(37)	(37)
Cost at December 31, 2004	**15,690**	**1,186**	**429**	**17,305**
Impairment, write-down and amortization at January 1, 2004	–	–	(256)	(256)
Foreign exchange adjustments	–	–	(1)	(1)
Amortization	–	(78)	(82)	(160)
Amortization from acquired companies, net	–	–	(21)	(21)
Impairment	(306)	–	–	(306)
Write-down	(38)	–	–	(38)
Disposals	38	–	74	112
Transfer to Property, plant and equipment	–	–	32	32
Impairment, write-down and amortization at December 31, 2004	**(306)**	**(78)**	**(254)**	**(638)**
Carrying amount at December 31, 2004	**15,384**	**1,108**	**175**	**16,667**

[1] Includes customer contract portfolios and related customer relationships.
[2] Additions to goodwill included goodwill of DKK 24 million relating to associates now fully owned. In 2004 additions to goodwill was off-set by a DKK 33 million reversal relating to acquisitions in prior years.

January 1 – December 31. Amounts in DKK millions

16. Impairment tests

ISS's intangibles[1] relate to several hundred acquisitions carried out under varying circumstances and at different stages of macro-economic cycles. The intangibles are distributed between most of the countries in which ISS operates. The acquired companies, to which the intangibles relate, comprise a diverse portfolio of service types, customer segments, geographical regions, contract sizes and management skills.

Impairment tests are carried out per country as this represents the lowest level of cash-generating units (CGU) to which the carrying amount of intangibles can be allocated and monitored with any reasonable certainty. This level of allocation and monitoring of intangibles is in accordance with the monitoring for internal management purposes and should be seen in the light of ISS's strategy to integrate acquired companies as quickly as possible in order to benefit from synergies.

Acquired companies are typically merged with (or activities transferred to) existing ISS companies shortly after the completion of the acquisition. Furthermore, synergies and other effects resulting from cooperation with existing ISS companies in their geographical or business area normally influence the financial performance of an acquired company. Consequently, after a short period of time, it is generally not possible to track and measure the value of intangibles of the individual acquired companies (or activities) with any reasonable certainty.

As a company based in Europe, ISS assumes the long-term ISS equity risk premium to be 3%. When performing impairment tests for individual CGU's, the risk premium applied may be higher than ISS's. When doing acquisitions ISS typically applies a hurdle rate, which is significantly higher than the calculated cost of capital.

The carrying amount of intangibles and the key assumptions[2] used in the impairment testing for each CGU representing more than 5% of the carrying amount of intangibles are presented below.

	Carrying amount			Applied expected long-term rate		Applied rate
	Goodwill	Customer contracts [3]	Total intangibles [1]	Growth	Margin	Discount rate, net of tax
France	4,186	228	4,414	3.0%	6.6%	7.4%
Finland	1,829	248	2,077	3.0%	8.9%	7.8%
Netherlands	1,717	37	1,754	3.0%	7.0%	7.9%
United Kingdom	1,434	141	1,575	3.0%	6.4%	7.8%
Norway	831	167	998	3.0%	7.2%	8.3%
Sweden	889	87	976	3.0%	6.0%	8.5%
Spain	700	264	964	3.0%	5.9%	7.3%
Germany [4]	841	95	936	3.0%	5.8%	7.9%
Denmark	870	58	928	3.0%	7.0%	8.0%
Other	3,295	461	3,756			
Total carrying amount at December 31, 2005	**16,592**	**1,786**	**18,378**			

[1] In this context intangibles cover the value of goodwill and customer contract portfolios and related customer relationships resulting from the acquisition of companies.
[2] 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.
[3] Includes customer contract portfolios and related customer relationships.
[4] For impairment test purposes the growth in Germany is expected to be 1.6% on average over the next five years while the margin is expected to be 4.6% on average over the next eight years.

Continues

January 1 – December 31. Amounts in DKK millions

16. Impairment tests (continued)

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. The operating margin is based on past performance and expectations for future market development. The assumptions applied in the short to medium term are based on management's expectations regarding developments in growth and operating margin. The terminal growth rates do not exceed the expected long-term average growth rate including inflation for the business in which the CGU's operate.

Uncertainties reflecting historical performance and possible variations in the amount or timing of the future cash flow is reflected in the discount rate.

In determining the country specific discount rates, which are calculated net of tax, a target ratio of 75/25 between the market value of debt and enterprise value is used. A country specific risk premium has been added to the discount rates to reflect the specific risk associated with each CGU.

ISS's activities in Germany
The impairment test for Germany has been based on a business plan prepared by the German management for ISS's activities in Germany. Based on the expectations set out in the business plan an impairment loss of DKK 93 million was incurred as at June 30, 2005. Using the German management's performance estimates in the business plan with an estimated terminal growth rate of 3% from 2011 and an estimated terminal margin of 5.8% from 2014 the test performed as at December 31, 2005 shows no impairment.

Sensitivity analysis
A sensitivity analysis on the key assumptions of 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 unit's recoverable amount equals its carrying amount.

	Growth		Margin		Discount rate, net of tax	
	Applied expected long-term rate	Allowed decrease	Applied expected long-term rate	Allowed decrease	Applied rate	Allowed increase
France	3.0%	2.0%	6.6%	2.0%	7.4%	2.0%
Finland	3.0%	> 3.0%	8.9%	4.0%	7.8%	4.0%
Netherlands	3.0%	> 3.0%	7.0%	3.0%	7.9%	3.8%
United Kingdom	3.0%	> 3.0%	6.4%	3.6%	7.8%	6.2%
Norway	3.0%	> 3.0%	7.2%	4.6%	8.3%	9.2%
Sweden	3.0%	> 3.0%	6.0%	3.4%	8.5%	7.4%
Spain	3.0%	1.6%	5.9%	1.5%	7.3%	1.6%
Germany [1)]	3.0%	0.0%	5.8%	0.0%	7.9%	0.0%
Denmark	3.0%	> 3.0%	7.0%	4.0%	8.0%	6.8%

[1)] For impairment test purposes the growth in Germany is expected to be 1.6% on average over the next five years while the margin is expected to be 4.6% on average over the next eight years.

January 1 – December 31. Amounts in DKK millions

17. Property, plant and equipment	2005			2004		
	Land and buildings	Plant and equipment	Total	Land and buildings	Plant and equipment	Total
Cost at January 1	290	4,667	4,957	206	3,947	4,153
Foreign exchange adjustments	3	56	59	0	(4)	(4)
Additions	30	595	625	9	613	622
Other additions [1]	63	87	150	78	–	78
Additions from acquired companies, net	(2)	186	184	73	614	687
Disposals	(25)	(472)	(497)	(77)	(560)	(637)
Transfers [2]	–	(3)	(3)	1	57	58
Cost at December 31	**359**	**5,116**	**5,475**	**290**	**4,667**	**4,957**
Depreciation at January 1	(56)	(3,108)	(3,164)	(50)	(2,634)	(2,684)
Foreign exchange adjustments	(2)	(43)	(45)	0	5	5
Depreciation	(14)	(567)	(581)	(8)	(527)	(535)
Depreciation from acquired companies, net	(1)	(117)	(118)	(11)	(388)	(399)
Disposals	6	382	388	13	468	481
Transfers	–	1	1	–	(32)	(32)
Depreciation at December 31	**(67)**	**(3,452)**	**(3,519)**	**(56)**	**(3,108)**	**(3,164)**
Carrying amount at December 31	**292**	**1,664**	**1,956**	**234**	**1,559**	**1,793**

Land and buildings with a carrying amount of DKK 18 million (DKK 22 million in 2004) were provided as collateral for mortgage debt of DKK 5 million (DKK 10 million in 2004). Plant and equipment with a carrying amount of DKK 6 million (DKK 7 million in 2004) was provided as collateral for long-term and short-term debt of DKK 0 million (DKK 3 million in 2004). The carrying amount of ISS's Land and buildings under finance leases was DKK 63 million (DKK 0 million in 2004). The carrying amount of ISS's Plant and equipment under finance leases was DKK 164 million (DKK 83 million in 2004).

[1] In 2005, additions to Land and buildings include DKK 63 million of Financial leases, and additions to Plant and equipment include DKK 87 million of Financial leases. In 2004, additions consisted of dismantling costs with counterpart under Other provisions.

[2] In 2005, DKK 3 million was transferred to Intangible assets. In 2004, DKK 37 million was transferred from Intangible assets, and DKK 21 million was transferred from Other receivables.

January 1 – December 31. Amounts in DKK millions

18. Associates	2005	2004
Investments in associates		
Cost at January 1	157	71
Foreign exchange adjustments	7	0
Additions	6	96
Additions from acquired companies, net	(7)	1
Disposals [1]	(46)	(11)
Cost at December 31	**117**	**157**
Revaluation at January 1	23	(4)
Foreign exchange adjustments	1	1
Net profit for the year	15	33
Dividends received	(1)	(4)
Disposals [1]	(23)	(3)
Revaluation at December 31	**15**	**23**
Carrying amount at December 31	**132**	**180**
Receivable from associate	**179**	**–**

							ISS's share		
2005	Country	Revenue	Operating profit	Net profit	Assets	Liabili- ties	Owner- ship %	Equity	Net profit
Pacific Service Solutions Pty Ltd. [2]	Australia	2,446	116	22	1,598	1,435	49	78	11
CarePartner Sverige AB [3]	Sweden	61	4	3	–	–	49	–	1
Grødegaard AS [4]	Norway	114	(1)	(4)	–	–	48	–	(2)
Aircon AS	Norway	157	15	9	49	29	40	7	4
Other associates		164	5	3	67	42		13	1
		2,942	**139**	**33**	**1,714**	**1,506**		**98**	**15**
Goodwill at December 31, 2005								34	–
Total carrying amount at December 31, 2005								**132**	**15**

							ISS's share		
2004	Country	Revenue	Operating profit	Net profit	Assets	Liabili- ties	Owner- ship %	Equity	Net profit
CarePartner Sverige AB	Sweden	757	46	47	206	131	49	37	23
Grødegaard AS	Norway	237	10	10	56	38	48	9	5
Aircon AS	Norway	134	8	(1)	37	33	40	2	0
Other associates		382	10	11	225	54		83	5
		1,510	**74**	**67**	**524**	**256**		**131**	**33**
Goodwill at December 31, 2004								49	–
Total carrying amount at December 31, 2004								**180**	**33**

[1] Including transfers related to associates now fully owned.
[2] Including Tempo Services Ltd., Australia. The amounts recognized in the consolidated financial statements for ISS are based on reported interim balances prepared in accordance with IFRS. Pacific Service Solutions Pty Ltd. has entered into a syndicated facility agreement implying that dividend payments can only be made under detailed restrictions until all senior debt has been settled. The remaining 51% shareholding was acquired February, 2006.
[3] CarePartner AB was sold at February 1, 2005.
[4] The remaining 52% shareholding was acquired at July 1, 2005.

January 1 – December 31. Amounts in DKK millions

19. Deferred tax	2005		2004	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Tax losses carried forward	195	–	176	–
Goodwill	151	149	85	127
Customer contracts [1]	–	444	–	244
Property, plant and equipment	51	159	–	90
Provisions	614	–	369	–
Losses in foreign subsidiaries under Danish joint taxation	–	68	–	104
Other	11	93	75	148
Set-off within legal tax units and jurisdictions	(377)	(377)	(102)	(102)
Deferred tax	**645**	**536**	**603**	**611**

The recognition of deferred tax assets regarding tax losses carried forward is supported by the expected future profitability in the foreseeable future.

A deferred tax liability associated with investments in subsidiaries, joint ventures and associates has not been recognized, because ISS is able to control the timing of the reversal of the temporary differences and does not expect the temporary differences to reverse in the foreseeable future.

Unrecognized tax assets
ISS has unrecognized deferred tax assets in the following countries:

	2005			2004
	Total	Recognized	Unrecognized	Unrecognized
Germany (tax losses carried forward)	324	164	160	158
Brazil (tax losses carried forward)	24	6	18	24
Belgium (tax losses carried forward)	23	15	8	–
Argentina (tax losses carried forward)	2	–	2	1
Israel (tax losses carried forward)	3	1	2	2
Total			**190**	**185**

The unrecognized tax loss can be carried forward indefinitely in the individual countries. Deferred tax assets relating to tax losses carried forward are only recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

[1] Includes customer contract portfolios and related customer relationships.

20. Other financial assets	2005	2004
Investments in Public Finance Initiatives (PFI)	48	18
Costs related to Public Private Partnerships (PPP)/PFI contracts	58	56
Regulatory long-term loans	39	24
Other	89	123
Other financial assets	**234**	**221**

January 1 – December 31. Amounts in DKK millions

21. Inventories	2005	2004
Raw materials and supplies	131	128
Work in progress	52	54
Finished goods	117	81
Inventories	**300**	**263**
Inventories expensed	**3,753**	**3,146**

22. Trade receivables and contract work in progress	2005	2004
Trade receivables [1]	**7,564**	**6,376**
Reserve for bad debt included in trade receivables	(202)	(204)
Debtor days [2]	47	44
Contract work in progress		
Contract expenses	164	165
Recognized profits	23	29
Contract work in progress, gross	**187**	**194**
Advances and prepayments	(34)	(38)
Contract work in progress, net	**153**	**156**

[1] The carrying amount of trade receivables approximates their fair values.
[2] Debtor days are calculated by dividing trade receivables with daily revenue including VAT.

23. Other receivables	2005	2004
Receivable from affiliates [1]	147	–
Receivable from associate [2]	179	–
Interest rate swaps [3]	27	249
Prepayments	329	292
Other	195	195
Other receivables [4]	**877**	**736**

[1] Effective interest rate regarding receivable from affiliates was 8.5%.
[2] Effective interest rate regarding receivable from associate was 15.0%.
[3] The marked-to-market value of interest rate swaps.
[4] The carrying amount of other receivables approximates their fair values.

24. Securities, cash and cash equivalents

	Carrying amount		Average effective rate (%)		Average duration (years)	
	2005	2004	2005	2004	2005	2004
Bonds [1]	55	568	3.1	3.0	1.6	2.0
Other	4	18	–	–	–	–
Securities	**59**	**586**				
Cash and cash equivalents	**1,293**	**3,121**	2.0	2.2		

[1] Listed Danish mortgage bonds.

25. Share capital	2005	2004
Share capital (in DKK millions)		
Share capital at January 1	947	886
Share issues	7	51
Employee shares	–	10
Share capital at December 31	**954**	**947**
Share capital (in thousands of shares)		
Number of shares at January 1	47,335	44,310
Issued during the year	367	3,025
Number of shares at December 31 - fully paid	**47,702**	**47,335**

In October 2005, ISS A/S issued 367,317 new shares in connection with the settlement of warrants (see note 4, Share-based payments). In October 2004, ISS A/S issued 476,124 new shares for an employee share program and 2,548,942 new shares were issued in a share issue at market price in December 2004.

2005 **Treasury shares**	Number of shares (thousands)	Nominal value DKK millions	Purchase price DKK millions	% of share capital
Treasury shares at January 1, 2005	251	5	58	0.5%
Additions	367	7	171	0.8%
Disposals	(4)	(0)	(1)	0.0%
Treasury shares at December 31, 2005	**614**	**12**	**228**	**1.3%**

2004 **Treasury shares**	Number of shares (thousands)	Nominal value DKK millions	Purchase price DKK millions	% of share capital
Treasury shares at January 1, 2004	156	3	28	0.3%
Additions	95	2	30	0.2%
Treasury shares at December 31, 2004	**251**	**5**	**58**	**0.5%**

In connection with the settlement of warrants ISS A/S purchased 367,317 and sold 4,000 treasury shares during the year. At December 31, 2005, all treasury shares were held by ISS A/S.

January 1 – December 31. Amounts in DKK millions

26. Long-term debt

	Carrying amount 2005	2004
Bond loans [1]	10,554	10,274
Senior debt	4,292	–
Acquisition debt	1,304	–
Mortgage loans	8	13
Other bank loans	55	25
Obligations under finance leases	146	48
Long-term debt, due within one year	(1)	(1)
Long-term debt	**16,358**	**10,359**
Fair value of long-term debt	14,739	10,454

Long-term debt is payable as follows:	2005	2004
1-5 years	6,848	75
After 5 years	9,510	10,284
Total	**16,358**	**10,359**
Effective interest rate [2]	4.8%	2.8%

ISS's total long-term loans and borrowings at December 31 are denominated in the following original currencies:

	2005	2004
DKK	8.3%	0.0%
EUR	70.2%	99.7%
GBP	9.3%	0.0%
NOK	5.8%	0.0%
SEK	4.6%	0.2%
USD related	0.0%	0.0%
Others	1.8%	0.1%
	100.0%	**100.0%**

ISS has no subordinated debt and no debt convertible into equity.

Finance lease obligations are payable as follows:

	2005			2004		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Within 1 year	110	(12)	98	37	(4)	33
1-5 years	92	(12)	80	54	(6)	48
After 5 years [3]	84	(18)	66	–	–	–
	286	**(42)**	**244**	**91**	**(10)**	**81**

[1] ISS Global A/S, a wholly owned subsidiary of ISS A/S, listed a Euro Medium Term Note program in September 2003 and subsequently launched its inaugural issue. The EUR 850 million notes maturing on September 18, 2010, have an annual coupon of 4.75%. In December 2004, ISS Global A/S issued EUR 500 million of notes maturing on December 8, 2014, with an annual coupon of 4.50%. ISS Global A/S swapped one-third of the fixed interest rates of the EUR 500 million notes into floating rates.

[2] Weighted average taking the effect of interest rate hedges into account.

[3] Financial lease obligations after 5 years related to buildings.

27. Pensions and similar obligations

ISS contributes to defined contribution plans as well as defined benefit plans. The majority of the pension plans are funded through payments of annual premiums to independent insurance companies responsible for the pension obligation towards the employees (defined contribution plans). In these plans ISS has no legal or constructive obligation to pay further contributions irrespective of the funding by these insurance companies. Pension costs related to such plans are recorded as expenses when incurred.

In some countries, most significantly, the Netherlands, Sweden, Switzerland, France, Norway and the United Kingdom, ISS has pension schemes where the actuarially determined pension obligations are recorded in the consolidated balance sheet (defined benefit plans). The defined benefit plans are primarily based on years of service and benefits are generally determined on the basis of salary and rank. The majority of the obligations are funded, but in some countries, mainly Sweden and France, the obligation is unfunded.

In certain countries, ISS participates in multiemployer pension schemes. The funds are currently not able to provide the necessary information in order for ISS to account for the schemes as defined benefit plans.

In Norway the majority of the defined benefit plans were settled in 2005 and converted into a defined contribution plan. The settlement has resulted in a settlement gain of DKK 58 million which amount has been recognized in the income statement.

Continues

January 1 – December 31. Amounts in DKK millions

27. Pensions and similar obligations (continued)

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. The range of actuarial assumptions used is as follows:

	2005	2004
Discount rates at December 31 [1]	2.7-5.0%	2.5-5.5%
Expected return on plan assets at December 31	3.0-6.5%	2.5-7.2%
Future salary increases	2.0-4.0%	2.0-4.0%
Future pension increases	0.3-2.8%	0.5-3.0%

The amounts recognized in the income statement are as follows:

	2005	2004
Current service costs	96	93
Interest on obligation	99	103
Expected return on plan assets	(78)	(95)
Recognized past service costs, net	0	(13)
Gains on curtailments and settlements, net	(57)	(4)
Recognized in the income statement as staff costs	**60**	**84**
Actual return on plan assets	**107**	**49**

The amounts recognized in the balance sheet are as follows:

	2005	2004
Present value of funded obligations	1,827	1,991
Fair value of plan assets	(1,441)	(1,652)
Funded obligations, net	386	339
Present value of unfunded obligations	413	339
Unrecognized past service costs	2	2
Net liability	**801**	**680**

Changes in the net liability recognized in the balance sheet are as follows:

	2005	2004
Net liability at January 1 before reclassifications	680	616
Reclassifications	–	20
Net liabilities at January 1 after reclassifications	680	636
Foreign exchange adjustments	2	2
Additions from acquired companies, net	48	22
Net expenses recognized in the income statement	60	84
Contributions	(213)	(104)
Actuarial losses recognized through equity, net	224	40
Net liability for defined benefit plans at December 31	**801**	**680**
Other pensions and obligations	32	34
Pensions and similar obligations at December 31	**833**	**714**

[1] Based on high quality corporate bonds.

Continues

January 1 – December 31. Amounts in DKK millions

27. Pensions and similar obligations (continued)	2005	2004
Accumulated net actuarial (gains)/losses in the statement of total recognized income and expense		
Actuarial losses recognized, net	**264**	**40**
Changes in the obligations (funded and unfunded)		
Opening present value of obligation	2,330	2,112
Foreign exchange adjustments	22	16
Additions from acquired companies	69	148
Interest on obligation	99	103
Current service costs	96	93
Benefits paid	(141)	(76)
Employee contributions	47	62
Actuarial (gains)/losses	253	(6)
Recognized past service costs	0	(13)
Liabilities extinguished on settlements and curtailments	(535)	(109)
Closing present value of obligations at December 31	**2,240**	**2,330**
Changes in fair value of plan assets are as follows:		
Opening fair value of plan assets	1,652	1,485
Foreign exchange adjustments	18	7
Expected return on plan assets	78	95
Actuarial gains/(losses)	29	(46)
Assets distributed on settlements	(478)	(105)
Contributions	233	136
Additions from acquired companies	21	126
Benefits paid	(112)	(46)
Fair value of plan assets at December 31	**1,441**	**1,652**
The major categories of plan assets as a percentage of total plan assets are as follows:		
Bonds	53%	56%
Equities	33%	27%
Property	6%	7%
Cash	5%	7%
Other	3%	3%
	100%	**100%**

ISS expects to contribute DKK 98 million to its defined benefit plans in 2006.

January 1 – December 31. Amounts in DKK millions

28. Other provisions

	Labor-related items	Self-insurance	Acquisitions	Other	Total
2005					
Carrying amount at January 1, 2005	71	36	115	424	646
Foreign exchange adjustments	0	0	1	4	5
Transfer	3	–	–	(3)	–
Additions from acquired companies, net	18	–	–	15	33
Provisions included in goodwill during the year [1]	–	–	103	–	103
Provisions made during the year (included in the income statement)	40	51	68	269	428
Other provisions made [2]	2	–	4	10	16
Provisions not used (reversed against the income statement)	(14)	(2)	–	(22)	(38)
Provisions not used (reversed against goodwill)	–	–	(6)	(1)	(7)
Provisions used during the year	(24)	(9)	(226)	(208)	(467)
Carrying amount at December 31, 2005	**96**	**76**	**59**	**488**	**719**
Expected maturity					
Within 1 year	72	43	57	308	480
1-5 years	22	33	2	154	211
After 5 years	2	–	–	26	28
Carrying amount at December 31, 2005	**96**	**76**	**59**	**488**	**719**
2004					
Carrying amount at January 1, 2004	83	38	61	348	530
Foreign exchange adjustments	(0)	(0)	0	(1)	(1)
Additions from acquired companies, net	14	–	–	66	80
Provisions included in goodwill during the year [1]	–	–	120	–	120
Provisions made during the year (included in the income statement)	29	16	142	104	291
Other provisions made [2]	–	–	–	69	69
Provisions not used (reversed against the income statement)	(14)	(3)	–	(41)	(58)
Provisions not used (reversed against goodwill)	–	–	(7)	(26)	(33)
Provisions used during the year	(41)	(15)	(201)	(95)	(352)
Carrying amount at December 31, 2004	**71**	**36**	**115**	**424**	**646**
Expected maturity					
Within 1 year	64	16	114	183	377
1-5 years	7	20	1	138	166
After 5 years	–	–	–	103	103
Carrying amount at December 31, 2004	**71**	**36**	**115**	**424**	**646**

Provisions are not discounted because the effect of time value of money is not material.

Labor-related items: In 2005, the provision mainly related to obligations in Belgium, Brazil, France, the Netherlands, Spain and Turkey. In 2004, the provision mainly related to obligations in Belgium, France, the Netherlands and Spain.

Self-insurance: In the United Kingdom and Ireland, ISS carries an insurance provision on employers' liability. ISS is self-insured up to an annual limit of DKK 34 million (DKK 41 million in 2004) for employers' liability. ISS Corporate has taken out a group third party liability insurance program. The ISS captive insurance company Global Insurance A/S carries part of the risk on the third party liability program with a maximum annual limit of DKK 38 million.

Acquisitions: The provision includes obligations incurred in the normal course of acquisitions mainly related to transaction costs, redundancy payments and termination of rental of properties.

Other: The provision comprises various obligations incurred in the normal course of business e.g. provision for dismantling costs, operational issues, closure of contracts and legal cases.

[1] Includes only transaction costs related to acquisitions, as integration costs are included in the income statement.

[2] In 2005, Other provisions made consisted of provisions transferred from Other liabilities. In 2004, Other provisions made consisted of dismantling costs with counterpart in Other additions under Land and buildings.

January 1 – December 31. Amounts in DKK millions

29. Short-term debt	2005	2004
Long-term debt, due within one year	1	1
Bank loans and overdrafts [1]	940	714
Finance leases	98	33
Debt to affiliate [2]	7	–
Debt to associate [3]	–	63
Short-term debt	**1,046**	**811**

[1] The weighted average effective interest rate regarding bank loans and overdrafts was 5.3% (2004: 3.5%).
[2] Effective interest rate regarding debt to affiliate was 8.5%.
[3] Effective interest rate regarding debt to associate for 2004 was 3.0%.

30. Other liabilities	2005	2004
Accrued wages and holiday allowances	3,169	2,761
Tax withholdings, VAT etc.	2,540	2,274
Prepayments from customers	357	215
Other payables and accrued expenses	2,013	1,579
Other liabilities	**8,079**	**6,829**

January 1 – December 31. Amounts in DKK millions

31. Contingent liabilities

Senior Facility Agreement
On November 7, 2005, FS Funding announced that it had finalized the financing arrangements relating to its acquisition of ISS A/S. FS Funding was the original borrower and guarantor under the senior facilities and the subordinated bridge facility, which were entered into on March 28, 2005, (subsequently amended and restated) and used for financing the acquisition of ISS A/S. FS Funding has executed a share pledge over its shares in ISS A/S as security for the senior facilities and the subordinated bridge facility. On July 26, 2005, ISS Global A/S, a 100% owned subsidiary of ISS A/S, acceded to the senior facilities agreement and thereby obtained a right to make future borrowings under the senior facilities.

ISS A/S, ISS Global A/S and certain material subsidiaries of ISS Global A/S in Belgium, Denmark, Finland, France, The Netherlands, Norway, Spain, Sweden and the United Kingdom have provided guarantees for ISS Global A/S' borrowings under the senior facilities. The guarantees have been backed up by security over bank accounts, trade receivables, intra-group receivables and intellectual property rights of ISS A/S and these subsidiaries. In addition, the shares in the material subsidiaries and shares in certain of their subsidiaries as well as shares in certain subsidiaries in Austria, Germany, Hong Kong, Ireland, Portugal, Singapore and Switzerland have been pledged. Neither ISS A/S nor any of its direct or indirect subsidiaries have guaranteed or granted any security for FS Funding's borrowing used for financing the acquisition of ISS A/S.

Operating leases
Operating leases consist of leases and rentals of properties, vehicles (primarily cars) and other equipment. The total expense under operating leases in the income statement amounted to DKK 1,479 million (DKK 1,272 million in 2004). Assuming the current car fleet etc. is maintained, the future minimum lease payments under operating leases are:

	Year 1	Year 2	Year 3	Year 4	Year 5	After 5 years	Total lease payment
At December 31, 2005	1,044	755	516	326	208	308	3,157
At December 31, 2004	934	695	493	315	222	407	3,066

Additional future lease payments of DKK 26 million existed regarding associates at December 31, 2005 (Pacific Service Solutions). In 2004, DKK 28 million of the total future lease payments at December 31, 2004 related to sub-leasing of properties and cars to associates (CarePartner).

Commitment vehicle leases
On January 1, 2005 ISS entered into a new global car fleet lease framework agreement for three years, including an option for extension for a further three year-term. The framework agreement contains an option for ISS to terminate the underlying agreement for an entire country or the entire commitment with four weeks notice, to the end of a quarter subject to payment of a termination amount. The majority of the underlying agreements have a duration of 3-5 years. The disclosed contingent liablity includes ISS's total leasing commitment assuming no early termination of any agreement.

Guarantee commitments
Indemnity and guarantee commitments at December 31, 2005, amounted to DKK 122 million (DKK 130 million in 2004).

Performance guarantees
ISS has issued performance guarantee bonds for service contracts with an annual revenue of DKK 1,062 million (DKK 611 million in 2004) of which DKK 861 million (DKK 448 million in 2004) were bank-guaranteed performance bonds. Such performance bonds are issued in the ordinary course of business in the service industry.

Outsourcing of IT
ISS has an IT-outsourcing agreement with Computer Sciences Corporation (CSC) running until 2015. ISS's contractual obligation related to the agreement at December 31, 2005 amounted to approximately DKK 430 million (DKK 280 million in 2004). ISS and CSC are currently in discussions on implications of certain aspects of the outsourcing agreement. These discussions include various claims of each party and can lead to change of scope of the contract.

Divestments
ISS makes provisions for claims from purchasers or other parties in connection with divestments. Management believes that provisions made at December 31, 2005 are adequate. However, there can be no assurance that one or more major claims arising out of ISS's divestment of companies will not adversely affect ISS's activities, results of operations and financial position.

In February 2005, ISS sold its Health Care operations to a newly formed joint venture entity, now named Aleris Holding AB ("Aleris"), owned by EQT III Limited, ISS and Aleris's management. In June 2005, ISS sold its interest in Aleris to EQT III Limited.

Following the sale of the Health Care operations, Aleris has claimed that the purchase price should be reduced by DKK 35 million. ISS disputes the claim.

Continues

31. Contingent liabilities (continued)

Legal proceedings
ISS is party to certain legal proceedings. Management believes that these proceedings (which are to a large extent labor cases incidental to its business) will not have a material impact on ISS's financial position.

Other contingent liabilities
The Brazilian tax authorities have filed two claims and raised certain other inquiries against ISS Brazil relating to corporate income tax for the year 1995 on realization of inflationary gain, federal taxes related to 1999 and other federal taxes and social securities amounting to DKK 60 million. These claims and inquiries are unlikely to be resolved in the short to medium term and the outcome is uncertain.

32. Derivatives

ISS's financial risk management is based on policies approved by the Board of Directors, specifying guidelines and risk limits for ISS's financial transactions and positions. ISS may use derivatives to hedge financial risks. Hedging of financial risks is managed at corporate level.

Currency risk can be classified in three categories: economic, transaction and translation.

In practical terms, the economic currency risk is somewhat limited for ISS, as ISS and its competitors generally have similar cost structures. However, currency movements may have an adverse effect on the general economic situation of countries in which ISS operates and ISS may be impacted by such events.

The service industry is characterized by a relatively low level of transaction risk, since the services are produced and delivered in the same local currency with minimal exposure from imported components. ISS's transaction risk primarily relates to the payment of royalties and service fees to ISS, which are made in the local currencies of the paying companies. Thus, a currency risk exists in relation to the translation of these payments into Danish kroner.

The main currency exposure relates to the risk involved in translating the income statements of foreign subsidiaries into Danish kroner based on average exchange rates for the year and in relation to the risk of translating the equity in foreign subsidiaries into Danish kroner based on year-end exchange rates.

ISS may choose to hedge the currency exposure on foreign investments by funding such investments in local currencies or entering into hedging transactions.

In 2005, the currencies in which ISS's revenue was denominated increased by 0.5% on average (2004: decreased by 0.4%) relative to Danish kroner, increasing ISS's revenue by DKK 215 million (2004: reducing ISS's revenue by DKK 159 million). Currency movements led to an increase of operating profit of DKK 16 million (2004: a decrease of DKK 8 million). The effect of the translation of investments in foreign subsidiaries and the effect of hedge transactions, net of tax, increased equity by DKK 101 million (2004: reduced equity by DKK 28 million).

Interest rate risk is measured by the duration of the net debt. The duration reflects the effect of a simultaneous increase or decrease in the general level of interest rates for the currencies included in the debt portfolio. As at December 31, 2005, the duration of net debt was approximately 3.4 years (December 31, 2004: 0.2 years). Thus, all other things being equal, an increase/(decrease) of one percentage point in the relevant interest rates would reduce/(increase) the market value of net debt by approximately DKK 542 million (2004: DKK 14 million). Based on the net debt and taking into account the effect of hedging instruments as at December 31, 2005, a general decrease/(increase) of one percentage point in relevant interest rates would reduce/(increase) the annual net interest expense by approximately DKK 65 million, all other things being equal.

ISS's loan portfolio primarily consists of bonds issued under the EMTN-program and bank loans. A part of the interest payments on the corporate bonds have been swapped from fixed into floating rates (see note 26, Long-term debt). To manage the duration of the net debt, ISS applies derivatives, such as interest rate swaps, futures and options. The deferred gain or loss on the interest rate instruments will in accordance with the matching principle be charged to the income statement as a financial item at the time when the hedged interest expense is recognized in the income statement.

Credit risk represents the risk of the accounting loss that would be recognized if counterparties failed to perform as contracted. Losses on bad debt relating to individual customers or counterparties have historically been relatively low. ISS performs ongoing credit evaluations of the financial condition of ISS's counterparties in order to reduce the credit risk exposure.

Continues

January 1 – December 31. Amounts in DKK millions

32. Derivatives (continued)

Contractual values and unrealized gains and losses are specified below for financial instruments used to hedge the foreign exchange risk and the interest rate risk:

2005 **Financial instruments**	Contractual value	Unrealized gain/(loss) on revaluation to fair value	Included in the income statement for 2005	Taken directly to equity on December 31, 2005	Maturity
Forward foreign currency, purchases					
CHF	124	0	0	–	2006
EUR	5,670	(0)	(0)	–	2006
GBP	454	1	1	–	2006
NOK	445	3	3	–	2006
SEK	289	1	1	–	2006
Others	31	0	0	–	2006
	7,013	**5**	**5**	**–**	
Forward foreign currency, sales					
AUD	578	(8)	(3)	(5)	2006
CHF	209	(0)	–	(0)	2006
EUR	4,939	0	0	0	2006
GBP	521	0	(0)	–	2006
HKD	214	(2)	(2)	–	2006
NOK	224	(1)	–	(1)	2006
SGD	12	(0)	(0)	–	2006
USD-related	221	(2)	–	(2)	2006
Others	99	(0)	(0)	0	2006
	7,017	**(13)**	**(5)**	**(8)**	
Interest rate instruments					
Interest rate swap - 2014 (EUR), receiver [1]	1,243	30	30	–	2014
Total financial instruments		**22**	**30**	**(8)**	

Hedging of net investments in foreign subsidiaries at December 31, 2005	Millions Net investments in foreign subsidiaries, DKK	Hedging, DKK	Net investments with translation risk, DKK	Net investments with translation risk, local currency
AUD	245	(369)	(124)	(27)
CHF	250	(209)	41	9
EUR	4,651	(2,611)	2,040	273
GBP	465	(467)	(2)	(0)
NOK	384	(224)	160	171
SEK	27	–	27	34
USD-related	378	(221)	157	–
Others	765	(70)	695	–
	7,165	**(4,171)**	**2,994**	

[1] The swap converts one-third of the fixed interest rate on the EUR 500 million bond loan into a floating rate. The income of DKK 30 million off-sets a similar expense in the income statement related to the bond loan. Of this amount DKK 27 million represented the positive marked-to-market value of the interest rate swap.

Continues

January 1 – December 31. Amounts in DKK millions

32. Derivatives (continued)

Contractual values and unrealized gains and losses are specified below for financial instruments used to hedge the foreign exchange risk and the interest rate risk:

2004 **Financial instruments**	Contractual value	Unrealized gain/(loss) on revaluation to fair value	Included in the income statement for 2004	Taken directly to equity on December 31, 2004	Maturity
Forward foreign currency, purchases					
AUD	63	(0)	(0)	0	2005
EUR	3,228	(1)	(1)	–	2005
GBP	52	0	–	0	2005
HKD	38	0	0	–	2005
SEK	74	(0)	(0)	–	2005
SGD	13	–	–	–	2005
Others	16	1	1	–	2005
	3,484	**(0)**	**(0)**	**0**	
Forward foreign currency, sales					
AUD	254	(14)	–	(14)	2005
CHF	409	(0)	–	(0)	2005
EUR	3,585	2	1	1	2005
GBP	1,013	8	5	3	2005
NOK	294	(1)	(1)	(0)	2005
SEK	1,259	1	1	(0)	2005
USD-related	71	–	–	–	2005
Others	66	(5)	–	(5)	2005
	6,951	**(9)**	**6**	**(15)**	
Interest rate instruments					
Interest rate swap - 2010 (EUR), receiver [1]	6,322	325	325	–	2010
Interest rate swap - 2014 (EUR), receiver [1]	3,719	5	5	–	2014
Interest rate swap (EUR), payer	298	(7)	–	(7)	2005
		323	**330**	**(7)**	
Total financial instruments		**314**	**336**	**(22)**	

Hedging of net investments in foreign subsidiaries at December 31, 2004	Millions: Net investments in foreign subsidiaries, DKK	Hedging, DKK	Net investments with translation risk, DKK	Net investments with translation risk, local currency
AUD	282	(212)	70	17
CHF	247	(283)	(36)	(7)
EUR	4,649	(671)	3,978	535
GBP	711	(315)	396	38
NOK	284	(112)	172	191
SEK	539	(534)	5	6
USD-related	269	(71)	198	–
Others	465	(66)	399	–
	7,446	**(2,264)**	**5,182**	

[1] The swaps converts the fixed interest rate on the EUR 850 million and EUR 500 million bond loans into a floating rate. The income of DKK 330 million off-sets a similar expense in the income statement related to the bond loans. Of this amount DKK 249 million represented the positive marked-to-market value of the interest rate swaps.

33. Related party transactions

The sole shareholder of ISS A/S, FS Funding A/S, has controlling influence in ISS. The ultimate controlling company of ISS is FS Invest Sarl (Luxembourg), which is 55% owned by funds advised by EQT. Related parties to ISS with a significant, but not controlling influence are:

Members of the Board of Directors and the Executive Management Board
Apart from remuneration as described in note 3, Staff costs and 4, Share-based payments there were no significant transactions with members of the Board of Directors or the Executive Management Board during the year. For a description of business relationships see below.

Joint ventures and associates
Transactions with joint ventures and associates are limited to transactions related to shared service agreements. There were no significant transactions with joint ventures and associates during the year. All transactions are made on market terms. The significant joint ventures and associates are specified in note 35, Subsidiaries, joint ventures and associates.

Sale of Health Care operations
In February 2005, ISS acquired the remaining 51% stake in CarePartner and subsequently sold its Health Care operations to a newly formed joint venture entity, now named Aleris Holding AB ("Aleris"), owned by EQT III Limited, ISS and Aleris's management. In June 2005, ISS sold its interest in Aleris to EQT III Limited. A contingent liability exists related to this sale, see note 31, Contingent liabilities.

In addition to the above and except for intra-group transactions, which were eliminated in the consolidated accounts, there were no material transactions with related parties and shareholders during the year.

ISS's Board of Directors' and Managing Director's external directorships and external executive positions

	Board Member	Executive Position
Board of Directors		
Leif Östling	Scania AB, AB SKF, Svenskt Näringsliv (Confederation of Swedish Enterprise) and Teknikföretagen (The Association of Swedish Engineering Industries).	President and CEO of Scania AB.
Ole Andersen	Contex Holding A/S, Aleris AB and Brandtex Group A/S.	Head of the Copenhagen office of EQT Partners.
Jørgen Lindegaard	Telenor ASA, Efsen Engineering A/S.	President and CEO of SAS Group.
Sanjay Patel	Ahlsell AB and R.L. Winston Rod Company. Advisor to International Asset Transactions, SmartAnalyst and the India Real Estate Opportunities Fund.	Co-head of Private Equity in Europe for the Principal Investment Area of Goldman Sachs.
Christoph Sander	–	–
Richard Sharp	Goldman Sachs International and Cognis GmbH & Co. KG.	Head of the Principal Investment Area of Goldman Sachs in Europe.
Peter Korsholm (alternate)	Contex Holding A/S (deputy director) and Brandtex Group A/S.	Partner at EQT Partners.
Steven Sher (alternate)	Ahlsell AB and Rhiag Group Ltd.	Vice-President in Europe for the Principal Investment Area of Goldman Sachs.
Managing Director		
Steen Parsholt	Aon Denmark A/S, Bakmann Holding A/S, Company Watch Ltd., and Cura Management A/S.	–

Continues

Amounts in DKK millions

33. Related party transactions (continued)

Affiliates
ISS had the following transactions with affiliates. All transactions were made on market terms.
- ISS received/paid interest from/to affiliates, see note 7, Net finance costs.
- ISS paid/received joint taxation contribution equal to 28% of taxable income to/from FS Equity A/S (the ultimate parent company in Denmark), see note 8, Taxes.

Apart from the above there were no other material transactions with related parties and shareholders during the year.

34. Interests in joint ventures

As of December 31, 2005, ISS had interests in 6 joint ventures (5 in 2004). The significant joint ventures are specified in note 35, Subsidiaries, joint ventures and associates. In 2005, ISS's interest in a joint venture in Japan was divested. The net profit for the year and the balance sheet items of ISS's interests in the 6 joint ventures are included in ISS's consolidated income statement and balance sheet with the following amounts:

	2005	2004
Revenue	189	300
Operating profit before other items	8	19
Profit before impairment/amortization of intangibles	12	17
Net profit for the year	**11**	**15**
Intangible assets [1]	0	0
Property, plant and equipment	4	1
Deferred tax assets	0	1
Financial assets	0	29
Current assets	62	82
Total assets	**66**	**113**
Equity	33	48
Long-term liabilities	1	1
Current liabilities	32	64
Total equity and liabilities	**66**	**113**
ISS's part of contingent liabilities (operating leases) in joint ventures	**35**	**6**

[1] Excluding goodwill arising from the acquisition of the joint ventures.

35. Subsidiaries, joint ventures and associates

ISS A/S

ISS Global A/S

ISS Global A/S

Argentina

Facility Services S.R.L.	100%
ISS Argentina S.A.	100%
Servicios Integrales de Mantenimiento S.A.	100%
Solkin S.A.	100%

Australia

ISS Facility Services Pty Ltd.	100%
ISS Fumigation Pty Ltd.	100%
ISS Holdings Pty Ltd.	100%
ISS Hygiene Service Pty Ltd.	100%
ISS Management Pty Ltd.	100%
Pacific Invest December 2004 Pty Ltd.	100%
Pacific Service Solutions Pty Ltd.	49%**
Partnership Catering Services Pty Ltd.	49%**
Prestige Property Services Pty Ltd.	49%**
Prestige Property Services Hunter Region Pty Ltd.	49%**
Prestige Protection Services Pty Ltd.	49%**
Tempo Facility Services Pty Ltd.	49%**
Tempo Franchise Business Systems Pty Ltd.	49%**
Tempo Health Support Services Pty Ltd.	49%**
Tempo Security Pty Ltd.	49%**
Tempo Services Ltd.	49%**

Austria

Coolit Klima- und Kältetechnik GmbH	100%
ISS Airest Bodenabfertigungsdienste GmbH	51%
ISS Alpha Beteiligungsverwaltung GmbH	100%
ISS Austria Holding GmbH	100%
ISS Beta Beteiligungsverwaltung GmbH	100%
ISS Facility Services GmbH	100%
Steinbauer GmbH	100%
WBZ Gartengestaltung GmbH	100%

Belgium and Luxembourg

ISS Building Services N.V.	100%
ISS Facility Services S.A. (Luxembourg)	100%
ISS Food N.V.	100%
ISS Hygiene Services N.V.	100%
ISS Industrial Services N.V.	100%
ISS N.V.	100%
ISS Office Support N.V.	100%
Party & Dinner N.V.	100%
Restauration Régionale S.A.	100%
Van Kerkhoven BVBA	100%
Vending Industries N.V.	100%

Brazil

ISS Biosystem Saneamento Ambiental Ltda.	100%
ISS Servisystem do Brasil Ltda.	100%

Brunei

ISS Thomas Cowan Sdn. Bhd.	50%
Multi-Clean Enterprise Sdn. Bhd.	50%

Chile

ISS Chile S.A.	100%
ISS Facility Services S.A.	100%

China and Hong Kong

EastPoint Group Ltd.	100%
ISS China Holdings Ltd.	100%
ISS China Holdings I Ltd.	100%
ISS EastPoint Facility Services Ltd.	100%
ISS Environmental Services (HK) Ltd.	100%
ISS ESGO Beijing Xin Sha Building Services Co. Ltd.	50%**
ISS Greater China Ltd.	100%
ISS Hongrun Facility Services (Shanghai) Ltd.	60%
ISS Mediclean (HK) Ltd.	100%
ISS Nihon Leaskin Co. Ltd.	100%
ISS Thomas Cowan Co. Ltd.	70%
LAWN Environmental Protection Ltd.	100%
Roboclean (HK) Co. Ltd	100%

Croatia

ISS Usluzne Djelatnosti d.o.o.	100%

The Czech Republic

ISS Automotive Services s.r.o.	100%
ISS Facility Services s.r.o	100%
Maintec s.r.o.	50% *
Miva Bohemia s.r.o.	100%

Denmark

Albertslund Kloakservice ApS	100%
Global Insurance A/S	100%
House of Coffee A/S	100%
ISS Facility Services A/S	100%
ISS Finans A/S	100%
ISS Funding A/S	100%
ISS Grønland A/S	100%
ISS Holding France A/S	100%

Continues

35. Subsidiaries, joint ventures and associates (continued)

ISS Management A/S	100%
ISS Venture A/S	100%
JWN Data A/S	100%
Kai Thor Catering A/S	100%
Media Service A/S	100%
P/f ISS Føoyar	55%
Slotsholmen Teknik A/S	50%
Estonia	
ISS Haldus Ou	51%
ISS Holding Ou	100%
Finland	
Estera Oy	100%
ISS Palvelut Oy	100%
ISS Proko Oy	100%
ISS Security Oy	100%
ISS Tekniset Palvelut Oy	100%
ISS Teollisuus Palvelut Oy	100%
ISS Vahinkosaneeraus Oy	100%
Suomen Laatutakuu Palvelut Oy	100%
France	
Agro Top Services Sarl	100%
Allobo SAS	100%
Aquaplant SAS	100%
Assainic SNC	100%
Atrya Securité SAS	100%
Axoma SAS	100%
Berthier Sarl	100%
Brio SAS	100%
BSE SAS	100%
Chloroville SAS	100%
Cogepar SAS	100%
CPMS SA	100%
Cynogarde SAS	100%
Europrop SAS	100%
FCF Sarl	100%
Force Protection Sarl	100%
FSI SA	100%
Gabriel Recyclage Sarl	100%
GIE ISS Services	100%
Groupe F2E SAS	100%
Ifopro Sarl	100%
ISS Abilis France SAS	100%
ISS Bati Services SASU	100%
ISS Energie SAS	100%
ISS Environnement SAS	100%
ISS Espaces Verts SAS	100%
ISS Holding Paris SA	100%
ISS Hygiène SASU	100%
ISS Hygiene Services SAS	100%
ISS Logistique et Production SAS	100%
ISS Multiservices SAS	100%
ISS Sécurité SAS	100%
ISS Surete Securite Sarl	100%
Jardem SAS	100%
LMCB SAS	100%
Loboal conseil SAS	100%
L´Impeccable SAS	100%
Nature Environnement SA	100%
NEGH SAS	100%
Paysages de France SAS	100%
Poirel Parcs & Jardins SAS	100%
Profolia SAS	100%
Provense Sarl	100%
Qualitec SAS	100%
Sede Coppex SASU	100%
Sede Holding SAS	100%
Sede Mortis SASU	100%
Segula Outsourcing SAS	100%
Sethap SAS	100%
SNC Channel SAS	100%
Sol Verts Paysage SAS	100%
Stael SAS	100%
Verts Paysages & Aménagement SAS	100%
ViaPark SAS	100%
Germany	
ISS Damage Control Deutschland GmbH	100%
ISS Facility Services GmbH	100%
ISS HWD GmbH	100%
ISS HWS GmbH & Co. KG	100%
ISS Personaldienstleistungen GmbH i.L.	100%
ISS Personalservice GmbH	100%
ISS Wäscheservice GmbH & Co. KG	100%
Klaus Harren GmbH	100%
NOBIS Facility Services GmbH	100%
NOBIS Security GmbH	100%
Vatro Trocknungs- und Sanierungstechnik GmbH & Co. KG	86%
Vatro Verwaltungs GmbH	86%
Greece	
ISS Facility Services S.A.	100%
ISS Human Resources S.A.	100%
Katharotechniki S.A.	100%
Hungary	
ISS Servisystem Kft.	100%
Iceland	
ISS Island ehf.	100%
India	
Cleantec Hospitality Services Pte Ltd.	100%
ISS Facility Services India Pte Ltd.	100%
Indonesia	
Pt. ISS Servisystem	100%

Continues

35. Subsidiaries, joint ventures and associates (continued)

Ireland	
Contract Cleaners Ltd.	100%
Corporate Personnel Services Ltd.	100%
Grangemore Landscapes Ltd.	100%
Grangemore Plants Ltd.	100%
ISS Ireland Ltd.	100%
ISS Hygiene Services Ltd.	100%
U.S. Security Ltd.	100%
Israel	
ISS-Ashmoret Ltd.	90%
ISS-Israel Manpower Services Ltd.	90%
M.A.S.H. Machatz Agencies Ltd.	90%
Italy	
Insecto Srl	100%
ISS Facility Services Srl	100%
ISS Hygiene Services Srl	100%
Malaysia	
ISS Facility Services Sdn. Bhd.	30%
ISS Hygiene Services Sdn. Bhd.	100%
The Netherlands	
De Loge Schoonmaakdiensten B.V.	100%
Het Groene Team B.V.	100%
Huib van den Hoven Plantsoenwerken B.V.	100%
Interfoon Call Centers B.V.	100%
ISS Arbo Plus B.V.	100%
ISS Catering Services B.V.	100%
ISS Damage Services B.V.	100%
ISS Food Hygiene B.V.	100%
ISS Holding Nederland B.V.	100%
ISS Hospital Services B.V.	100%
ISS Hygiene Services B.V.	100%
ISS Integrated Facility Services B.V.	100%
ISS Landscaping Services B.V.	100%
ISS Nederland B.V.	100%
ISS Reception Services B.V.	100%
Verhulst Beplantingswerken B.V.	100%
New Zealand	
Basecare Ltd.	100%
ISS Facilities Services Ltd.	100%
ISS Holdings NZ Ltd.	100%
ISS Management Services Ltd.	100%
Tempo Building Services Ltd. (New Zealand)	49%**
Norway	
Aircon Miljø og Renholdssystemer AS	40%**
Aker Kværner Industrielt Vedlikehold AS	100%
ForvaltningsCompagniet AS	100%
Hero Mottak og Kompetanse AS	50% *
ISS Facility Services AS	100%
ISS Lufthavnservice AS	15%
ISS Skaaret AS	100%
ISS Vaktmester Kompaniet AS	100%
NSB Trafikservice AS	45% *
Personalhuset AS	90%
PSP Procuro Servicepartner AS	100%
Raufoss Beredskap AS	51%
Serveringspartner AS	100%
Vaktmestersentralen AS	100%
Varig Gruppen AS	70%
Eidomsinvestor AS	49%**
Poland	
ISS Facility Services Sp. Z.o.o.	100%
Portugal	
Desipraga Soiedade de Desinfecção e Desinfestacão, Lda.	100%
ISS Facility Services Gestão e Manutenção de Edificios, Lda.	100%
ISS Servisystem Serviços de Limpeza, Lda.	100%
ISS Portugal Serviços de Gestão, Lda.	100%
Sodepo Empresa de Trabalho Temporário, SA	100%
Romania	
3D Romania S.A.	100%
ISS Facility Services S.R.L.	100%
Russia	
Facility Services RUS LLC	100%
Singapore	
CDCS-eks Catering Services Pte Ltd.	100%
Gourmet Wok Pte Ltd.	100%
ISS Bakery Pte Ltd.	100%
ISS-CDCS Catering Pte Ltd.	100%
ISS Facility Services Pte Ltd.	100%
ISS Hygiene Services Pte. Ltd.	100%
ISS Sanitation Services Pte Ltd.	100%
Serve 1st Services Pte Ltd.	100%
Woko (F&B) Pte Ltd.	100%
Slovakia	
ISS Automotive Services s.r.o.	100%
ISS Facility Services s.r.o.	100%
ISS Security s.r.o.	100%
Slovenia	
ISS Servisystem d.o.o.	100%
Spain	
Gelim S.A.	100%
Integrated Service Solutions S.L.	100%
ISS Facility Services S.A.	100%
ISS Higiene Ambiental 3D S.A.	100%
ISS Logistica, Producción y Mantenimiento S.L.	100%
ISS Salud y Servicios Sociosanitarios S.A.	100%
ISS Serv. Auxiliares y Complem. de Oficinas S.A.	100%
ISS Soluciones de Jardineria S.A.	100%

Continues

35. Subsidiaries, joint ventures and associates (continued)

Sri Lanka		
ISS Abans Environmental Services (PT) Ltd.	50%	*
Sweden		
Codeum Finans AB	100%	
GK Rengörarna AB	100%	
ISS Ekonomiförvaltning AB	100%	
ISS Facility Services AB	100%	
ISS Invita AB	100%	
ISS Mark och Miljö AB	100%	
ISS Markbolaget i Uppsala AB	100%	
ISS Miljöbyggarna i Borås AB	100%	
ISS Teleoffice AB	100%	
ISS TraffiCare AB	100%	
Lemonia AB	100%	
Terrakultur Stockholm AB	100%	
Terrakultur Växtservice AB	100%	
Switzerland		
AMH Airport Multiservice Holding AG	100%	
Erwin Jakober AG	100%	
Helco Hellfritz AG	100%	
Irvak & LGT AG	100%	
ISS Holding AG	100%	
ISS Aviation AG Dietikon	100%	
ISS Aviation SA	100%	
ISS Bernasconi SA	100%	
ISS Facility Services AG	100%	
ISS Facility Services AG (Liechtenstein)	100%	
ISS Gartenbau AG	100%	
ISS Pest Control AG	100%	
Jakober AG	100%	
Jakober Transporte und Kanalreinigungs AG	100%	
Notter Kanaldicht AG	100%	
Notter Kanalservice AG	100%	
Thailand		
ISS Facility Services Co., Ltd.	100%	
Sara Service Co., Ltd.	100%	
Turkey		
ISS Tesis Yönetim Hizmetleri A.S.	70%	
Proser Koruma ve Güvenlik Hizmetleri A.S.	70%	
The United Kingdom		
ISS Damage Control Ltd.	100%	
ISS Damage Control (Scotland) Ltd.	76%	
ISS Facility Services Ltd.	100%	
ISS Finance and Investment (Bishop Auckland) Ltd.	100%	
ISS Finance and Investment Ltd.	100%	
ISS Food Hygiene Ltd.	100%	
ISS Mediclean Ltd.	100%	
ISS UK Holdings Ltd.	100%	
ISS UK Ltd.	100%	
Mitchell & Struthers (Contracts) Ltd.	100%	
Mitchell & Struthers Ltd.	100%	
RCO Group Ltd.	100%	
RCO Support Services Ltd.	100%	
Spectrum Franchising Ltd.	100%	
Spectrum Holdings Ltd.	100%	
Standby Pest Control (Holdings) Ltd.	100%	
Standby Pest Control Ltd.	100%	
Superclean Support Services (Holdings) Ltd.	100%	
Superclean Support Services Plc.	100%	
Uruguay		
ISS de Uruguay S.A.	100%	
Samilar S.A.	100%	

Undertakings of immaterial interests are left out.
* Joint venture
** Associate

January 1 – December 31. Amounts in DKK millions

36. Discontinued operations

In February 2005, ISS sold its Health Care operations to a newly formed joint venture entity, now named Aleris Holding AB ("Aleris"), owned by EQT III Limited, ISS and Aleris's management. In June 2005, ISS sold its interest in Aleris to EQT III Limited. A contingent liability exists related to this sale, see note 31, Contingent liabilities.

In September 2005, ISS sold its activities in Japan to Mitsui & Co., Ltd. The sale consisted of a sale of the 50% share in Bussan ISS Holding Co., Ltd., which is a holding company owning all shares of ISS Nesco Ltd. The sale of Japan resulted in a gain before tax of DKK 10 million.

During 2005 the discontinued operations had a cash inflow from operating activities of DKK 1 million (2004: cash inflow of DKK 76 million), a cash outflow from investing activities of DKK 10 million (2004: cash outflow of DKK 119 million) and a cash inflow from financing activities of DKK 10 million (2004: cash inflow of DKK 69 million).

The discontinued operations resulted in proceeds of DKK 778 million and a decrease in net assets of DKK 539 million. Cash and cash equivalents in the discontinued operations were DKK 8 million.

37. Transition to IFRS

As stated in note 1, Significant accounting policies, these are ISS's first consolidated financial statements prepared in accordance with IFRS as adopted by the EU.

The accounting policies under IFRS set out in note 1 have been applied consistently in preparing the consolidated financial statements as of and for the year ended December 31, 2005, and in the comparative information presented in these financial statements as of and for the year ended December 31, 2004, and in the preparation of the opening IFRS balance sheet at January 1, 2004 (the date of transition).

In preparing the opening IFRS balance sheet, ISS has adjusted amounts reported previously in consolidated financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to IFRS has affected ISS's financial position, financial performance and cash flows is set out in the following table and the notes that accompany the table.

		January 1, 2004			2004	December 31, 2004		
	Note	Assets	Liabilities	Equity [1]	Net Profit	Assets	Liabilities	Equity [1]
According to previous GAAP		23,385	15,644	7,741	150	29,676	21,240	8,436
Reversal of goodwill amortization, net of goodwill impairment and write-down	1	–	–	–	873	873	–	873
Amortization of customer contracts [2]	2	–	–	–	(78)	(78)	–	(78)
Integration costs	3	–	(17)	17	(110)	(93)	–	(93)
Share-based payments	4	–	–	–	(8)	–	–	–
Recognition of unrecognized actuarial losses	5	–	407	(407)	(2)	–	450	(450)
Tax impact on the above adjustments	6	108	–	108	12	427	293	134
Total adjustments		**108**	**390**	**(282)**	**687**	**1,129**	**743**	**386**
According to IFRS		**23,493**	**16,034**	**7,459** [3]	**837** [3]	**30,805**	**21,983**	**8,822**

[1] Including minority interests.
[2] Includes customer contract portfolios and related customer relationships.
[3] According to the description of the expected impact from the transition to IFRS as included in the 2004 Annual Report pages 150-172 (unaudited), expected equity including minorities according to the January 1, 2004 IFRS opening balance amounted to DKK 7,474 million, and net profit for the year amounted to DKK 895 million. A defined benefit pension obligation in Slovenia of DKK 15 million has been recognized in the final IFRS opening balance sheet, reducing equity to DKK 7,459 million. Amortization of customer contracts, net of tax of DKK 58 million reduced net profit for the year from DKK 895 million to DKK 837 million.

Continues

37. Transition to IFRS (continued)

1. In accordance with IFRS 1, ISS has not applied IFRS 3 retrospectively for business combinations made prior to January 1, 2004. Accordingly, the carrying amount under previous GAAP of assets acquired, including goodwill, and liabilities assumed are their deemed cost under IFRS. Regarding provisions for integration costs reference is made to note 3 below.

   ISS has applied IFRS 3 to all business combinations occuring since January 1, 2004. Accordingly, from January 1, 2004 goodwill is no longer amortized but is tested annually for impairment. Goodwill impairment tests are also prepared at interim reporting dates if there is an indication of impairment.

   The impairment tests are carried out at the lowest level of cash-generating units at which the carrying amount of goodwill can be allocated and monitored with any reasonable certainty. The determination of cash-generating units follows the level of monitoring for internal management purposes. This is generally equal to Facility Services at country level.

   The level of allocation and monitoring of goodwill should be seen in light of ISS's strategy to integrate acquired companies as quickly as possible to benefit from synergies. Acquired companies are typically merged with (or activities transferred to) existing companies shortly after completion of the acquisition. Furthermore, synergies and other effects resulting from cooperation with existing ISS companies in their geographical or business area normally influence the financial performance of an acquired company. Consequently, after a short period of time, it is generally not possible to track and measure the value of goodwill of acquired companies (or activities) with any reasonable certainty.

   For the year ended December 31, 2004, the effect was a reversal of goodwill amortization of DKK 1,217 million and a recognition of goodwill impairment of DKK 344 million including DKK 38 million related to write-downs in connection with divestments. The goodwill impairment primarily related to ISS's activities in Germany as DKK 188 million in amortization and DKK 100 million in goodwill impairment recognized under previous GAAP was recognized as goodwill impairment in the IFRS figures for the year ended December 31, 2004.

   The net effect of the above adjustments was an increase in the carrying amount of goodwill of DKK 873 million as at December 31, 2004.

2. Under IFRS 3, the purchase price allocation requires more intangible assets, mainly customer contract portfolios and related customer relationships, to be recognized before the residual value is assigned to goodwill.

   As ISS is a service company that acquires businesses in order to apply the ISS model and generate value by restructuring and refining the acquired business, the main impact from acquisitions derives from synergies, the value of human resources and the creation of platforms for growth. Accordingly, the main part of the purchase price will generally still be allocated to goodwill.

   However, as part of the transition to IFRS, ISS has for acquisitions made subsequent to January 1, 2004, developed a model to value acquired customer contract portfolios and related customer relationships.

   This valuation model is based on discounted cash flows related to the acquired customer contract portfolios and related customer relationships. The discounted cash flow model is based on a number of assumptions with respect to the churn rates and profitability of the acquired portfolio at the time of the acquisition. The net present value of the cash flows is uplifted with part of the discounted tax amortization benefit applicable for a potential buyer when acquired as a trade and asset purchase.

   The value of the acquired customer contract portfolios and related customer relationships is amortized over the estimated useful lives based on the churn rate of the acquired portfolio using the declining balance method.

   As a result of the above, DKK 1,108 million is separated from goodwill and allocated to customer contract portfolios and related customer relationships as at December 31, 2004, after amortization of DKK 78 million for the year ended December 31, 2004.

   At the time of the acquisition a deferred tax liability is calculated at the local tax rate on the difference between the customer contract portfolios' carrying amount and the tax value. The recognition of this deferred tax liability has increased the amount of goodwill by DKK 271 million as at December 31, 2004.

   The value of customer contract portfolios and related customer relationships are allocated to cash-generating units and tested for impairment consistent with the method used for goodwill.

Continues

37. Transition to IFRS (continued)

3. Under IFRS 3, integration costs cannot be included in the calculation of goodwill. Instead integration costs must be charged to the income statement when a legal or constructive obligation occurs.

   Accordingly, a provision for integration costs of DKK 17 million, that does not qualify under IFRS 3, has been reversed via equity in the IFRS opening balance sheet as at January 1, 2004.

   For the year ended December 31, 2004, integration costs of DKK 110 million, net of tax of DKK 35 million, have been expensed in the income statement and reduced goodwill by DKK 75 million as at December 31, 2004.

   Costs related to integration in the acquiring ISS company are reclassified from Other income and expenses, net to Integration costs in the income statement.

4. Under previous GAAP, equity-settled, share-based compensation plans were only affecting equity. Under IFRS 2, the fair value of the employee services received in exchange for the grant of the options, warrants or shares is recognized as an expense, and allocated over the vesting period.

   According to the transitional provisions in IFRS 2, "Share-based Payment", instruments granted after November 7, 2002, with vesting date after January 1, 2005, should be expensed as outlined above. ISS's instruments subject to these transitional rules are warrants granted to certain managers and employees in June 2003 and November 2003. Following rulings by the Danish Supreme Court in 2004 certain of these warrants are considered vested at the time of grant contrary to the conditions set out in the grant.

   For the year ended December 31, 2004, the effect of the above was an expense in the income statement of DKK 8 million and a related tax impact of DKK 2 million.

   Since November 7, 2002, ISS has also issued stock options to members of the Executive Management Board and offered employee shares at a discount to the market price. These options and employee shares vested at the time of grant and subscription, i.e. prior to January 1, 2005. Therefore, the IFRS 2 transitional provisions have not impacted ISS's consolidated financial statements in regard to these stock options and employee shares.

5. In certain countries, mainly in the Netherlands, Sweden, Switzerland, France, Norway and the United Kingdom, ISS has defined benefit plans. Under previous GAAP ISS used the accounting principle known as the corridor approach in the recognition of actuarial gains and losses and certain transition gains and losses were amortized.

   In accordance with IFRS 1, these unrecognized actuarial gains and losses and transition gains and losses are included in equity net of taxes in the IFRS opening balance sheet at January 1, 2004. The effect is a reduction of equity by DKK 407 million before a tax related impact of DKK 114 million.

   For the year ended December 31, 2004, the effect of early adoption of the amendment to IAS 19, "Employee benefits", is a further reduction of equity by DKK 41 million related to actuarial losses occurring during the year. The tax impact hereof is DKK 16 million.

   Furthermore, calculated interest related to defined benefit obligations, DKK 8 million, are reclassified from Net finance costs to Staff costs.

   ISS participates in the Finnish TEL pension insurance scheme, which covers employees in the private sector in Finland. Due to continued uncertainty in Finland regarding the appropriate classification of this scheme, ISS has continued to account for its liability under the scheme as a defined contribution plan. In December 2004, the Finnish Ministry of Social Affairs and Health approved certain changes to the principles for calculating disability pension liabilities under the TEL pension insurance scheme effective from the beginning of 2006. Hereafter, the uncertainty is reduced and the TEL pension insurance scheme should more clearly meet the criteria for classification as a defined contribution plan.

   In certain countries, ISS participates in multi-employer pension schemes. The funds are currently not able to provide the necessary information in order for ISS to account for the schemes as defined benefit plans.

Continues

January 1 – December 31. Amounts in DKK millions

37. Transition to IFRS (continued)

6. The above changes increased the deferred tax assets/(deferred tax liabilities) as follows:

		2004	
	Note	January 1	December 31
Reversal of goodwill amortization, net of goodwill impairment and write-down	1	–	(49)
Amortization of customer contracts [1]	2	–	(247)
Integration costs	3	(6)	(6)
Share-based payments	4	–	–
Recognition of unrecognized actuarial losses	5	114	130
Increase in deferred tax assets/deferred tax liabilities		**108**	**(172)**
Tax relief on integration costs (previously netted in goodwill)			35
Initial deferred tax liabilities on customer contracts[1] (increased goodwill, see note 2 above)			271
Impact on equity			**134**

The effect on the income statement for the year ended December 31, 2004, was a decrease of the previously reported tax charge for the year of DKK 12 million.

[1] Includes customer contract portfolios and related customer relationships.

Other transition impacts
In addition to the above changes impacting the recognition and measurement principles, the transition to IFRS impacts the classification and presentation of certain items in the consolidated financial statements as set out below:

- In accordance with IAS 1, "Presentation of Financial Statements", the minority interests' proportionate share of the profit or loss and equity of subsidiaries is presented as separate line items in the income statement and in equity. Previously, the minority interests' proportionate share of the profit or loss was presented before the parent company's share of the consolidated profit, while the minority interests' proportionate share of equity was presented as a separate line item between equity and liabilities.

- In accordance with IFRS 1, ISS has reset cumulative translation differences related to foreign subsidiaries, joint ventures and associates in the IFRS opening balance sheet as at January 1, 2004. Translation differences arisen subsequent to January 1, 2004, are presented as a separate component of equity.

- The cash flow statement is primarily impacted by securities (bonds) being excluded from cash and cash equivalents. Furthermore, cash from operating activities are impacted by reclassification of integration costs, DKK 33 million, from the acquisition of businesses (under investing activities) to payments related to integration costs (under operating activities).

- In accordance with IAS 1, certain balance sheet items have been reclassified in order to comply with the requirement of separate classification of current and non-current assets and liabilities.

The consolidated financial statements is further impacted by additional note disclosures, primarily regarding acquisitions, impairment tests, derivatives and related parties.

38. Subsequent events

ISS has made a number of acquisitions subsequent to December 31, 2005, see note 12, Acquisition and divestment of businesses. Most significantly on February 13, 2006, ISS announced the acquisition of the remaining 51% of the shares in Tempo Services Ltd. which were previously owned by investors managed by DB Capital Partners. Net purchase price amounted to DKK 1,079 million.

Apart from the above and the events described in this Annual Report, ISS is not aware of events subsequent to December 31, 2005, which are expected to have a material impact on ISS's financial position.

Parent Company Financial Statements

INCOME STATEMENT OF THE PARENT COMPANY

January 1 – December 31. Amounts in DKK millions

	2005	2004	Note
Revenue	**560**	**488**	
Staff costs	(72)	(127)	2, 3
Management fees	(117)	(39)	4
Other operating expenses	(133)	(69)	5
Depreciation and amortization	(12)	(11)	10, 11
Operating profit before other items	**226**	**242**	
Other income and expenses, net	(172)	(14)	6
Operating profit	**54**	**228**	
Income from subsidiaries	1,406	–	12
Net finance income	32	23	7
Profit before tax	**1,492**	**251**	
Income taxes	(22)	(81)	8
Net profit for the year	**1,470**	**170**	
Attributable to:			
Retained earnings	1,470	170	
Net profit for the year	**1,470**	**170**	

CASH FLOW STATEMENT FOR THE PARENT COMPANY

January 1 – December 31. Amounts in DKK millions

Note		2005	2004
	Operating profit before other items	226	242
	Share-based payments	3	8
10, 11	Depreciation and amortization	12	11
	Changes in working capital	(102)	(35)
	Interest paid, net	21	34
8	Income taxes paid, net	(116)	(137)
	Payments related to other income and expenses, net	(88)	(17)
	Cash flow from operating activities	**(44)**	**106**
9	Investments in intangible assets and equipment, net	(7)	(32)
12	Increase of share capital in subsidiary	–	(750)
12	Proceeds from sale of subsidiary	75	–
12	Dividends received from subsidiary	5,740	–
9	Investments in financial assets, net	547	(529)
	Cash flow from investing activities	**6,355**	**(1,311)**
	Financial payments, net	(4)	42
	Proceeds from issuance of share capital	130	793
14	Addition of treasury shares	(279)	–
	Dividends paid to shareholders	(7,237)	(177)
	Options and warrants settled	(131)	–
	Cash flow from financing activities	**(7,521)**	**658**
	Total cash flow	**(1,210)**	**(547)**
	Cash and cash equivalents at January 1	1,272	1,819
	Total cash flow	(1,210)	(547)
13	**Cash and cash equivalents at December 31**	**62**	**1,272**

At December 31. Amounts in DKK millions

	2005	2004	Note
Assets			
Intangible assets	15	45	10
Equipment	20	19	11
Investments in subsidiaries	3,681	8,090	12
Other financial assets	4	5	
Total non-current assets	**3,720**	**8,159**	
Receivables from affiliates	208	135	13
Tax receivables	9	–	8
Other receivables	15	26	
Securities	–	545	13
Cash and cash equivalents	62	1,272	13
Total current assets	**294**	**1,978**	
Total assets	**4,014**	**10,137**	
Equity and liabilities			
Total equity	**3,823**	**9,822**	14, 17
Deferred tax liabilities	64	107	8
Total long-term liabilities	**64**	**107**	
Debt to affiliates	46	15	13
Trade payables	23	24	
Tax payables	–	61	8
Other liabilities	58	108	
Total current liabilities	**127**	**208**	
Total liabilities	**191**	**315**	
Total equity and liabilities	**4,014**	**10,137**	

STATEMENT OF TOTAL RECOGNIZED INCOME AND EXPENSE AND CHANGES IN EQUITY OF THE PARENT COMPANY

At December 31. Amounts in DKK millions

2005	Share capital	Treasury shares	Share premium	Retained earnings	Total equity
Total recognized income and expense					
Net profit for the year	–	–	–	1,470	1,470
Share-based payments	–	–	–	23	23
Tax of entries recognized directly in equity	–	–	–	(7)	(7)
Net income and expense recognized directly in equity	**–**	**–**	**–**	**16**	**16**
Total recognized income and expense for the year	**–**	**–**	**–**	**1,486**	**1,486**
Equity at January 1, 2005	**947**	**–**	**–**	**8,875**	**9,822**
Changes in equity					
Total recognized income and expense for the year	–	–	–	1,486	1,486
Dividends paid [1]	–	–	–	(7,237)	(7,237)
Addition of treasury shares, net	–	(279)	–	–	(279)
Settlement of warrants and options, net of taxes [2]	–	–	–	(99)	(99)
Share issue	7	–	–	123	130
Total changes in equity	**7**	**(279)**	**–**	**(5,727)**	**(5,999)**
Equity at December 31, 2005 [3]	**954**	**(279)**	**–**	**3,148**	**3,823**

2004	Share capital	Treasury shares	Share premium	Retained earnings	Total equity
Total recognized income and expense					
Net profit for the year	–	–	–	170	170
Share-based payments	–	–	–	8	8
Tax on entries recognized directly in equity	–	–	–	(2)	(2)
Net income and expense recognized directly in equity	**–**	**–**	**–**	**6**	**6**
Total recognized income and expense for the year	**–**	**–**	**–**	**176**	**176**
Equity at January 1, 2004	**886**	**–**	**17**	**6,731**	**7,634**
Impact from transition to IFRS	–	–	–	1,359	1,359
Adjusted equity at January 1, 2004	**886**	**–**	**17**	**8,090**	**8,993**
Changes in equity					
Total recognized income and expense for the year	–	–	–	176	176
Dividends paid [1]	–	–	–	(177)	(177)
Share issue	51	–	695	–	746
Employee shares	10	–	37	–	47
Tax regarding employee shares	–	–	–	3	3
Rebill of employee shares costs to affiliates, net of tax	–	–	–	34	34
Transfer [4]	–	–	(749)	749	–
Total changes in equity	**61**	**–**	**(17)**	**785**	**829**
Equity at December 31, 2004 [3]	**947**	**–**	**–**	**8,875**	**9,822**

[1] Dividend paid per share amounted to DKK 153.5 in 2005. Dividend paid per share amounted to DKK 4 in 2004.
[2] Warrants and options settled in connection with the acquisition of ISS A/S by FS Funding A/S. See note 3.
[3] At December 31, 2005, retained earnings included DKK 800 million in proposed dividends. At December 31, 2004, retained earnings included DKK 237 million in proposed dividends of which DKK 1 million was attributable to ISS A/S's wholly owned subsidiaries.
[4] In accordance with changed legislation, the share premium account was transferred to retained earnings at December 31, 2004.

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

January 1 – December 31

1. Significant accounting policies

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU being effective for accounting periods beginning on January 1, 2005, and the statutory order on the adoption of IFRS issued pursuant to the Danish Financial Statements Act. These are ISS A/S' first IFRS financial statements and IFRS 1, "First-time Adoption of International Financial Reporting Standards" has been applied.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated, and in preparing the IFRS opening balance sheet as at January 1, 2004 for the purpose of the transition to IFRS.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of ISS A/S is provided in note 17, Transition to IFRS. This note includes reconciliations of equity and net profit reported under previous GAAP to those reported under IFRS.

BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of available-for-sale financial assets, and financial assets and liabilities at fair value through the income statement.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. ISS A/S believes the following are the areas involving critical accounting estimates and judgements used in the preparation of the financial statements:

- the impairment testing of cost of investments in subsidiaries
- the assessment of ongoing litigation and the valuation of contingent liabilities and
- the valuation of tax assets

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

GENERAL

Foreign currency Transactions in foreign currency are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currency are translated at the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Realized and unrealized exchange gains and losses are included in the income statement under Net finance income.

INCOME STATEMENT

Revenue comprises royalty and management fee invoiced to subsidiaries less VAT.

Operating expenses **Staff costs** comprises salaries and wages, pensions, social security expenses and other employee related expenses. **Management fees** comprises management fee paid to affiliates. **Other operating expenses** includes expenses related to the operation of service equipment and other non-current assets, external assistance as well as other selling, distribution and administrative expenses, including expenses related to marketing, transportation, operating leases, subcontractors, audit, legal assistance, losses and loss provisions on receivables etc.

Share-based compensation The fair value of equity-settled, share-based compensation plans, is recognized as an expense with a corresponding increase in equity. The fair value is fixed at grant date and allocated over the vesting period. The fair value of the options and warrants granted is measured using the Black-Scholes valuation method taking the terms and conditions upon which they were granted into account. Non-market vesting conditions are included in the assumptions about the number of options and warrants that are expected to become exercisable. At each balance sheet date, ISS A/S revises this estimate. ISS A/S recognizes the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Adjustments relating to prior years are included in the income statement in the year of adjustment.

Continues

1. Significant accounting policies (continued)

Operating leases Operating lease costs are recognized in the income statement on a straight-line basis over the term of the lease. The obligation for the remaining lease period is disclosed in the notes under Contingent liabilities.

Other income and expenses, net consists of income and expenses, both recurring and non-recurring, that ISS A/S does not consider to be part of normal ordinary operations.

Income from subsidiaries comprises dividends declared in the year and gains and losses from divestment of subsidiaries. If dividends declared exceed the accumulated profit since takeover, the dividend is not recognized in the income statement but instead recognized as a write-down in the cost of the investment.

Net finance income comprises interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Income taxes consist of income tax and changes in deferred tax. Deferred tax is recognized based on the balance sheet liability method and comprises all temporary differences between accounting and tax values of assets and liabilities. Furthermore, a deferred tax provision is recognized for expected re-taxation of tax-deductible losses realized in foreign subsidiaries previously included under Danish joint taxation.

Where the tax base can be calculated using different tax regulations, deferred tax is measured based on the planned use of the asset or the unwinding of the liability, as applicable.

Deferred tax is computed based on the tax rate expected to apply when the temporary differences are balanced out. No deferred tax provisions are made for undistributed profits of subsidiaries and goodwill not deductible for tax purposes. Deferred tax assets, including the tax value of losses carried forward, are recognized at the value at which they are expected to be applied either by eliminating tax on future earnings or by setting off deferred tax liabilities within the same legal tax unit and jurisdiction.

The recognized income tax is allocated to Income taxes and Equity, as applicable.

ISS A/S is jointly taxed with all Danish resident affiliates. The Danish income tax payable is allocated between the jointly taxed Danish companies based on their proportion of taxable income (full absorption including reimbursement of tax deficits). The jointly taxed companies are included in the Danish tax on account scheme. Additions, deductions and allowances are recognized under Net finance income.

CASH FLOW STATEMENT
The cash flow statement shows ISS A/S's cash flows for the period stemming from operating, investing and financing activities, the change in cash position during the period as well as ISS A/S's cash position at the beginning and the end of the period.

The cash flow statement is prepared using the indirect method based on Operating profit before other items.

Cash flow from operating activities comprises Operating profit before other items adjusted for non-cash items, changes in working capital and payments regarding interest, income taxes, other income and expenses.

Cash flow from investing activities comprises investments in or sale of subsidiaries and cash flow from purchase and sale of non-current assets.

Cash flow from financing activities comprises proceeds from and repayment of loans, dividends, proceeds from share issues and purchase and sale of treasury shares.

Cash and cash equivalents comprises cash and marketable securities, with maturity of less than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

BALANCE SHEET
Software and equipment are measured at cost less accumulated amortisation and depreciation.

Cost of assets includes cost price as well as costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. To the cost price is added the estimated cost of dismantling and removing the item and restoring the site on which it is located to the extent that this cost is recognized as an accrued liability.

Continues

1. Significant accounting policies (continued)

Subsequent costs of replacing part of an item is recognized if it is probable that the future economic benefits embodied with the item will flow to ISS A/S. The remaining carrying amount of the replaced item is de-recognized in the balance sheet and transferred to the income statement. All other costs for common repairs and maintenance are recognized in the income statement as and when incurred.

When measuring the value of software developed for internal use, external costs to consultants and software as well as internal direct and indirect costs related to the development are capitalized. Other development costs for which it cannot be rendered probable that future economic benefit will flow to ISS A/S are recognized in the income statement as and when incurred.

Amortization and depreciation is provided on a straight-line basis over the expected useful lives of the assets taking into account the estimated residual value. The amortization and depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually.

Non-current assets	**Expected useful life**
Software	5 years
Leasehold improvements	Over the lease term
Equipment	3-5 years

If the estimated useful lives of the assets or the estimated residual value is changed the impact on the amortization and depreciation is recognized prospectively.

Short-life assets and less valuable assets are charged to the income statement in the year of purchase. Gains and losses arising on the disposal or retirement of non-current assets are measured as the difference between the selling price less direct sales costs and the net carrying amount, and are recognized in the income statement under Other operating expenses in the year of sale.

Leased assets Assets held under finance leases are at inception of the agreement measured in the balance sheet at the lower of the fair value and the present value of future lease payments. When calculating the present value, the interest rate implicit in the lease or an approximated rate is applied as the discount rate. Assets held under finance leases are depreciated in accordance with the policy for non-current assets acquired by ISS A/S.

Financial assets Investments in subsidiaries are recognized at cost. Investments are written down to the recoverable amount if this is exceeded by the cost. Cost is written down to the extent that the dividends declared exceeds the accumulated profit since take-over.

Receivables are measured at amortized cost less a provision for doubtful debts based on an individual assessment. Provisions and realized losses during the year are recognized under Other operating expenses.

Securities are measured at fair value at the balance sheet date, with any resulting gains or losses recognized in the income statement. The fair value is the quoted bid price at the balance sheet date.

Treasury shares Proceeds related to the acquisition or disposal of treasury shares are taken directly to equity.

Dividends are recognized in the period in which they are declared.

2. Staff costs	2005	2004
Wages and salaries	(69)	(118)
Share-based payments	(3)	(8)
Pension costs, defined contribution plans	(0)	(1)
Social charges and other costs	(0)	(0)
Staff costs [1]	**(72)**	**(127)**
Average number of employees [1]	46	76

Remuneration to the Board of Directors and Executive Management Board of ISS A/S

DKK thousands	2005 Board of Directors [2]	2005 Executive Management Board [3]	2004 Board of Directors [2]	2004 Executive Management Board [3]
Salaries/fees	1,650	9,523	2,688	17,383
Bonus [4]	–	45,767	–	6,122
Pension	–	321	–	583
Settlement of stock options	–	100,311	–	–
Total	**1,650**	**155,922**	**2,688**	**24,088**

[1] Effective July 1, 2005, all employess of ISS A/S were transferred to ISS Management A/S and entered into employment agreements with ISS Managment A/S.

[2] Following the acquisition of ISS A/S by FS Funding A/S, the members of the Board of Directors of ISS A/S stepped down at an Extraordinary General Meeting on May 27, 2005. The Board of Directors of FS Funding A/S, the parent of ISS A/S, were appointed to the Board of Directors. No remuneration was paid in 2005 to newly appointed members of the Board of Directors.

[3] Effective July 1, 2005, the members of the Executive Management Board of ISS A/S were transferred to ISS Management A/S and entered into employment agreements with ISS Managment A/S. No remuneration was paid by ISS A/S to its Managing Director in the period July 1 – December 31, 2005.

[4] The bonus paid to the members of the Executive Management Board of ISS A/S in 2005 consisted of transaction- and stay-on bonuses of approximately DKK 37 million and EVA bonus of approximately DKK 8 million (2004: DKK 6 million).

3. Share-based payments

Share-based payments comprise warrants and options.

Warrants

In the period from 1999 to 2003, ISS A/S issued warrants to senior managers under five warrant programs. The warrants were granted to senior managers on the basis of their position and potential after being nominated by their executive manager. The warrants were granted "out-of-the-money", i.e. the subscription price was higher than the quoted market price of the ISS A/S share on the Copenhagen Stock Exchange at the time of subscription, and were not exercisable during a period of at least two years following the date of the grant.

The warrants were exercisable at specific dates within the exercise periods. In addition, the holders also had the right to an extraordinary exercise of the warrants under certain circumstances, e.g. if the composition of owners of ISS A/S was changed in instances where – according to the Danish Securities Trading Act – the acquirer was under an obligation to submit a purchase offer to the remaining shareholders of ISS A/S; or if ISS A/S resolved to de-list the shares of ISS A/S from the Copenhagen Stock Exchange.

On May 13, 2005, FS Funding A/S, the holding company set up by EQT and Goldman Sachs Capital Partners, announced its mandatory tender offer (the "Mandatory Tender Offer") to the shareholders of ISS A/S to acquire the shares of ISS A/S at a price of DKK 465 per share (the "Offer Price"). Consequently, eligible warrant holders were entitled to exercise their warrants during a three-month period following the announcement. Effective June 21, 2005, ISS A/S was de-listed from the Copenhagen Stock Exchange, and accordingly, the eligible warrant holders were entitled to exercise their warrants during a three-month period following the de-listing. Thus the warrant holders had the opportunity to exercise their warrants in the period from May 13 – September 21, 2005 (the "Extraordinary Exercise Period").

In accordance with the terms of the warrant programs, the exercise price of warrants issued by ISS A/S has not been adjusted for payments of the ordinary dividends paid in 2003, 2004 and 2005, nor has it been adjusted following the payment of interim dividends to FS Funding A/S of DKK 1,194 million in July 2005, DKK 4,400 million in August 2005 and DKK 1,400 million in November 2005. For further information about the terms and conditions of the warrant programs, please refer to ISS A/S's Articles of Association.

1999 Warrant program
At January 1, 2005, 707,000 warrants were outstanding under the 1999 Warrant program. The subscription price ranged from DKK 547 to DKK 861 and the warrants were exercisable for a period of 30 days following the announcement of the annual results for the years 2002-2005. During the Extraordinary Exercise Period, the outstanding warrants under the program were "out-of-the-money". In 2005, 44,000 warrants were forfeited and at December 31, 2005, 663,000 warrants were outstanding under the program. The outstanding warrants are exercisable within a period of 30 days following the announcement of ISS A/S's annual results for 2005.

2000 Warrant program
At January 1, 2005, 343,000 warrants were outstanding under the 2000 Warrant program. The subscription price ranged from DKK 514 to DKK 522 and the warrants were exercisable for a period of 30 days following the announcement of the annual results for the years 2003-2006. During the extraordinary exercise period, the outstanding warrants under the program were "out-of-the-money". In 2005, 21,000 warrants were forfeited and at December 31, 2005, 322,000 warrants were outstanding under the program. The outstanding warrants are exercisable within a period of 30 days following the announcement of ISS A/S's annual results for 2005 and 2006.

2001 Warrant program
At January 1, 2005, 410,539 warrants were outstanding under the 2001 Warrant program. The subscription price ranged from DKK 418 to DKK 440 and the warrants were exercisable for a period of 30 days following the announcement of the annual results for the years 2004-2007. During the 30-day period following the announcement of the results for 2004, 1,000 warrants and 3,000 warrants were exercised at prices of DKK 418 and DKK 440, respectively.

During the Extraordinary Exercise Period following the announcement of the Mandatory Tender Offer, ISS A/S offered the eligible warrant holders under this program to settle their warrants at an amount equal to the difference between the Offer Price and the exercise price. In total, ISS paid approximately DKK 6 million to settle 69,329 warrants with an exercise price of DKK 418 and 112,400 warrants with an exercise price of DKK 440 under this program. Warrant holders who did not opt for cash settlement exercised a total of 42,996 warrants at a price of DKK 418 per share and 125,150 warrants at a price of DKK 440 per share and subsequently sold their shares to FS Funding A/S at the Offer Price. The net payment related to the exercise of warrants and subsequent purchase of shares amounted to DKK 5 million.

56,664 warrants were forfeited in 2005 and at December 31, 2005, no warrants were outstanding under the 2001 Warrant program.

Continues

3. Share-based payments (continued)

2002 Warrant program
At January 1, 2005, 285,178 warrants were outstanding under the 2002 Warrant program. The warrants were exercisable at a price of DKK 247 within a period of 30 days following the announcement of the annual results for the years 2005-2008.

During the Extraordinary Exercise Period following the announcement of the Mandatory Tender Offer, ISS A/S offered the eligible warrant holders under this program to settle their warrants at an amount equal to the difference between the Offer Price and the exercise price. In total, ISS paid approximately DKK 36 million to settle 166,671 warrants under this program. Warrant holders that did not opt for cash settlement exercised a total of 94,671 warrants and subsequently sold their shares to FS Funding A/S at the Offer Price. The net payment related to the exercise of warrants and subsequent purchase of shares amounted to DKK 21 million.

23,836 warrants were forfeited in 2005 and at December 31, 2005, no warrants were outstanding under the 2002 Warrant program.

2003 Warrant program
At January 1, 2005, 274,500 warrants were outstanding under the 2003 Warrant program. The warrants were exercisable at a price of DKK 319 within a period of 30 days following the announcement of the annual results for the years 2006-2009.

During the Extraordinary Exercise Period following the announcement of the Mandatory Tender Offer, ISS A/S offered the eligible warrant holders under this program to settle their warrants at an amount equal to the difference between the Offer Price and the exercise price. In total, ISS paid approximately DKK 23 million to settle 158,000 warrants under this program. Warrant holders who did not opt for cash settlement exercised a total of 104,500 warrants and subsequently sold their shares to FS Funding A/S at the Offer Price. The net payment related to the exercise of warrants and subsequent purchase of shares amounted to DKK 15 million.

12,000 warrants were forfeited in 2005 and at December 31, 2005, no warrants were outstanding under the 2003 Warrant program.

Stock options

Stock options granted to members of the Executive Management Board
At January 1, 2005, the members of the Executive Management Board of ISS A/S (the "EMB") held a total of 525,000 stock options and former members of the EMB held a total of 137,500 stock options. The stock options were granted "out-of-the-money", i.e. the subscription price was higher than the quoted market price of the ISS A/S share on the Copenhagen Stock Exchange at the time of subscription, and were not exercisable during a period of at least two years following the date of the grant.

Continues

January 1 – December 31. Amounts in DKK millions

3. Share-based payments (continued)

Stock options held by members of the Executive Management Board and certain former executive officers of ISS A/S at January 1, 2005

Exercise period	Exercise price	Adjusted Exercise price [1]	Settlement [2]	Stock options held by executive officers employed by ISS A/S as at January 1 2005 [3]	Stock options held by former executive officers of ISS A/S	Stock options settled in 2005	Stock options forfeited or expired in 2005
1.1.02-31.12.05	385	364	Intrinsic value	25,000	50,000	75,000	
1.1.02-31.12.05	650	621	Intrinsic value	25,000	75,000		100,000
1.1.03-31.12.06	470	450	Intrinsic value	25,000		25,000	
1.1.04-31.12.07	500	479	Intrinsic value	25,000			25,000
1.1.04-31.12.08	585	562	Intrinsic value	25,000	12,500		37,500
1.1.03-31.12.08	480	462	Intrinsic value	25,000		25,000	
1.1.06-31.12.09	315	302	Black-Scholes	125,000		125,000	
1.1.07-31.12.10	319	310	Black-Scholes	125,000		125,000	
1.1.08-31.12.11	340	337	Black-Scholes	125,000		125,000	

[1] The exercise price of the stock options has been adjusted for dividends in excess of DKK 2 per share (adjusted for inflation) and the issue of employee shares below market price.

[2] The stock options were settled applying the method described in the terms of the relevant stock option certificates. Settlement under the intrinsic value method entitles the stock option holder to receive an amount equivalent to the positive difference between the exercise price under DKK 461.54, which was equivalent to the average share price quoted on the Copenhagen Stock Exchange during a 20-day period prior to May 11, 2005. Settlement under the Black-Scholes model entitles the holder to receive an amount equal to the estimated fair value of the stock option according to the Black-Scholes model. The Board of Directors of ISS A/S engaged an Investment Bank to calculate the Black-Scholes value of the options. A share price of DKK 465, a risk free interest rate of 3.5%, and a volatility of 40.5% was assumed in the model.

[3] Effective July 1, 2005, the executive officers were transferred from ISS A/S to ISS Management A/S.

Continues

3. Share-based payments (continued)

The holders were offered to settle their stock options when FS Funding A/S announced the completion of the public tender offer to the Copenhagen Stock Exchange. Subsequently, 500,000 stock options were settled in cash for a total consideration of approximately DKK 105 million. The right to exercise 162,500 was waived by the holders. No stock options were granted to the EMB in 2005 and at December 31, 2005, no stock options were outstanding.

Stock options granted to members of the Board of Directors of ISS A/S
Directors serving on the Board of Directors of ISS A/S as of January 1, 2005, held a total of 27,500 stock options. The stock options entitle the holder to acquire ISS A/S shares from the company at a price of DKK 598 per share within a period of 30 days following the announcement of the financial results for each of the years 2002-2006. In accordance with the terms of the stock option agreements between the holders and ISS A/S, the exercise price of stock options issued by ISS A/S has not been adjusted for payments of the ordinary dividends paid in 2003, 2004 and 2005, nor has it been adjusted following the payment of interim dividends to FS Funding A/S of DKK 1,194 million in July 2005, DKK 4,400 million in August 2005 and DKK 1,400 million in November 2005.

At the Extraordinary General Meeting on May 27, 2005 the members of the Board of Directors of ISS A/S stepped down following the change of ownership and new members were elected to the Board. No further stock options were granted to members of the Board of Directors and no stock options were exercised during 2005 and at December 31, 2005, former members of the Board of Directors held a total of 27,500 stock options. The outstanding stock options are exercisable within a period of 30 days following the announcement of ISS A/S' annual results for 2005 and 2006.

Accounting

In accordance with the transitional provisions of IFRS 2 Share-based Payment, ISS applies IFRS 2 to grants of warrants and stock options that were granted after November 7, 2002 and had not yet vested at January, 1 2005.

Share-based payments within the scope of IFRS 2
ISS granted 767,000 warrants to certain managers and employees in June 2003 and November 2003 with vesting dates after January 1, 2005. Following rulings by the Danish Supreme Court in 2004 177,000 of these warrants must be considered vested at the time of grant contrary to the conditions set out in the grant. The fair value of the 590,000 warrants not considered vested at grant must be expensed in the income statement over the vesting period. In 2005 DKK 3 million was expensed in the Income Statement (2004: DKK 8 million). However, due to the announcement of the Mandatory Tender Offer the warrants vested at the beginning of the Extraordinary Exercise Period, i.e. earlier than was assumed at the time of grant. The holders exercised their right to exercise or settle their warrants during the Extraordinary Exercise Period. Consequently, an additional amount of DKK 20 million that otherwise would have been recognized for services received over the remainder of the vesting period was expensed in the Income Statement in 2005 in Other income and expenses.

Share-based payments not within the scope of IFRS 2
Stock options and warrants, other than the warrants mentioned above, are not within the scope of IFRS 2, and the fair value of these instruments has not been expensed in the Income Statement.

Exercise and settlement warrants and stock options
Settlement of warrants and options in the amount of DKK 136 million, offset by tax of DKK 37 million, were taken directly to equity.

Valuation
Taking into consideration that
- the outstanding warrants were "out-of-the-money" during the exercise periods in 2005;
- ISS A/S has subsequently paid interim dividends totalling DKK 7 billion or approximately DKK 149 per share, which – other things being equal – would reduce the share price by DKK 149 per share; and
- the exercise price of outstanding warrants, according to their terms, will not be adjusted for dividends.

ISS A/S believes that the value of the outstanding warrants was insignificant at December 31, 2005.

January 1 – December 31. Amounts in DKK millions

4. Management fee

Effective July 1, 2005, all employees of ISS A/S were transferred to ISS Management A/S. ISS A/S has entered into a management agreement with ISS Managment A/S. According to the agreement ISS Management A/S shall be compensated for all its costs plus a mark-up. Accordingly the management fee to subsidiaries increased to DKK 117 million in 2005 from DKK 39 million in 2004.

5. Fees to auditors	2005	2004
KPMG		
Audit fees [1]	2	1
Tax and VAT advisory services	3	–
Other services [2]	5	2
Total KPMG	**10**	**3**
Deloitte [3]		
Audit fees [1]	–	1
Other services	–	–
Total Deloitte	**–**	**1**
Total fees to auditors	**10**	**4**

[1] Audit fees comprised statutory audit of the Annual Report for the Parent Company.
[2] Other services mainly comprised work related to the acquisition of ISS A/S (see note 6, Other income and expenses, net).
[3] Deloitte resigned as ISS A/S auditors at the Annual General Meeting in April 2005.

6. Other income and expenses, net	2005	2004
Costs related to the change of ownership of ISS [1]	(190)	–
Income related to transfer of employees to ISS Management A/S	50	–
Other	(32)	(14)
Other income and expenses, net	**(172)**	**(14)**

[1] Costs related to the change of ownership included fees to financial advisors, lawyers, auditors, financial institutions, insurance companies etc. Furthermore, it included a stay-on-bonus to the former Executive Management Board and certain other key employees, a settlement of EVA-bonus and a transaction-related bonus to the former Executive Management Board.

7. Net finance income	2005	2004
Interest income etc.	37	45
Financial income	**37**	**45**
Interest expenses etc.	(3)	(22)
Interest expenses to affiliates	(0)	(0)
Foreign exchange loss	(2)	(0)
Financial expenses	**(5)**	**(22)**
Net finance income	**32**	**23**

January 1 – December 31. Amounts in DKK millions

8. Taxes	2005			2004		
	Income taxes	Tax payables/ (receivables)	Deferred tax liabilities/ (assets)	Income taxes	Tax payables/ (receivables)	Deferred tax liabilities/ (assets)
Balance at January 1	–	61	107	–	74	148
Adjustments relating to prior years, net	(2)	2	–	(1)	67	(66)
Effect of joint taxation with foreign subsidiaries	–	30	(30)	–	(21)	21
Tax regarding employee shares	–	–	–	3	(3)	–
Tax regarding share-based payments	–	7	–	–	2	–
Tax regarding warrants and options	–	(37)	–	–	–	–
Tax on profit before tax	(20)	33	(13)	(83)	79	4
	(22)	**96**	**64**	**(81)**	**198**	**107**
Reclassification of joint taxation contribution	–	11	–	–	–	–
Tax paid	–	(116)	–	–	(137)	–
Taxes at December 31	**(22)**	**(9)**	**64**	**(81)**	**61**	**107**

	2005	2004
Equipment	5	14
Losses in foreign subsidiaries under Danish joint taxation	68	104
Other	(9)	(11)
Deferred tax liabilities	**64**	**107**

9. Investments in non-current assets	2005	2004
Purchase of intangible assets and equipment	(10)	(32)
Proceeds on sales of intangible assets and equipment	3	–
Investments in intangible assets and equipment, net	**(7)**	**(32)**
Investments in securities, net	545	(528)
Investments in other financial assets, net	2	(1)
Investments in financial assets, net	**547**	**(529)**

January 1 – December 31. Amounts in DKK millions

10. Intangible assets

	Software	
	2005	2004
Cost at January 1	73	44
Additions	4	29
Disposals	(34)	–
Cost at December 31	**43**	**73**
Amortization at January 1	(28)	(22)
Amortization	(7)	(6)
Write-down	(23)	–
Disposals	30	–
Amortization at December 31	**(28)**	**(28)**
Carrying amount at December 31	**15**	**45**

11. Equipment	2005	2004
Cost at January 1	43	42
Additions	6	3
Disposals	(4)	(2)
Cost at December 31	**45**	**43**
Depreciation at January 1	(24)	(21)
Depreciation	(5)	(5)
Disposals	4	2
Depreciation at December 31	**(25)**	**(24)**
Carrying amount at December 31	**20**	**19**

January 1 – December 31. Amounts in DKK millions

12. Investments in subsidiaries	2005	2004
Cost at January 1	9,147	8,397
Additions	–	750
Disposals	(1,136)	–
Cost at December 31	**8,011**	**9,147**
Revaluation at January 1	(1,057)	(1,057)
Dividends received in excess of accumulated profits	(4,330)	–
Disposals	1,057	–
Revaluation at December 31	**(4,330)**	**(1,057)**
Carrying amount at December 31	**3,681**	**8,090**
Income from subsidiaries		
Received dividends	5,740	–
Hereof in excess of accumulated profits	(4,330)	–
Proceeds from sale of subsidiary	75	–
Carrying amount of sold subsidiary	(79)	–
	1,406	**–**
Subsidiaries	Share %	
ISS Global A/S, Copenhagen, Denmark	100	100
ISS Finans A/S, Copenhagen, Denmark	–	100

13. Financial assets and liabilities

	Carrying amount		Average effective rate (%)		Average duration (years)	
	2005	2004	2005	2004	2005	2004
Receivables from affiliates	208	135	8.5	2.7	–	–
Securities [1]	–	545	–	3.0	–	2.0
Cash and cash equivalents	62	1,272	2.3	2.1	–	–
Debt to affiliates	46	15	8.5	3.2	–	–

[1] Listed Danish mortgage bonds.

January 1 – December 31. Amounts in DKK millions

14. Share capital	2005	2004
Share capital (in DKK millions)		
Share capital at January 1	947	886
Share issues	7	51
Employee shares	–	10
Share capital at December 31	**954**	**947**
Share capital (in thousands of shares)		
Number of shares at January 1	47,335	44,310
Issued during the year	367	3,025
Number of shares at December 31 – fully paid	**47,702**	**47,335**

In October 2005, ISS A/S issued 367,317 new shares in connection with the settlement of warrants (see note 3, Share-based payments). In October 2004, ISS A/S issued 476,124 new shares for an employee share program and 2,548,982 new shares were issued in a share issue at market price in December 2004.

Treasury shares	Number of shares (thousands)	Nominal value DKK millions	Purchase price DKK millions	% of share capital
Treasury shares at January 1	–	–	–	–
Additions	618	12	281	1.3%
Disposals	(4)	(0)	(2)	0.0%
Treasury shares at December 31	**614**	**12**	**279**	**1.3%**

ISS A/S acquired 617,992 and sold 4,000 treasury shares during the year. Of the total addition 224,875 treasury shares were received as part of dividends from ISS Global A/S and 25,800 shares were purchased from ISS Finans A/S and ISS Global A/S. The rest were purchased from FS Funding A/S. The purchase price was recognized directly in equity.

January 1 – December 31. Amounts in DKK millions

15. Contingent liabilities, pledges etc.

Senior Facility Agreement
On November 7, 2005, FS Funding announced that it had finalized the financing arrangements relating to its acquisition of ISS A/S. FS Funding was the original borrower and guarantor under the senior facilities and the subordinated bridge facility, which were entered into on March 28, 2005, (subsequently amended and restated) and used for financing the acquisition of ISS A/S. FS Funding has executed a share pledge over its shares in ISS A/S as security for the senior facilities and the subordinated bridge facility. On July 26, 2005, ISS Global A/S, a 100% owned subsidiary of ISS A/S, acceded to the senior facilities agreement and thereby obtained a right to make future borrowings under the senior facilities.

ISS A/S, ISS Global A/S and certain material subsidiaries of ISS Global A/S in Belgium, Denmark, Finland, France, The Netherlands, Norway, Spain, Sweden and the United Kingdom have provided guarantees for ISS Global A/S' borrowings under the senior facilities. The guarantees have been backed up by security over bank accounts, trade receivables, intra-group receivables and intellectual property rights of ISS A/S and these subsidiaries. In addition, the shares in the material subsidiaries and shares in certain of their subsidiaries as well as shares in certain subsidiaries in Austria, Germany, Hong Kong, Ireland, Portugal, Singapore and Switzerland have been pledged. Neither ISS A/S nor any of its direct or indirect subsidiaries have guaranteed or granted any security for FS Funding's borrowing used for financing the acquisition of ISS A/S.

Operating leases
Operating leases consist of leases and rentals of properties, cars and other equipment. The total expense under operating leases in the income statement amounted to DKK 16 million (DKK 15 million in 2004). Assuming the current car fleet etc. is maintained, the future minimum lease payments under operating leases are:

	Year 1	Year 2	Year 3	Year 4	Year 5	After 5 years	Total lease payment
At December 31, 2005	14	6	5	4	3	5	37
At December 31, 2004	14	4	4	3	2	7	34

Commitment vehicle leases
On January 1, 2005, ISS entered into a new global car fleet lease framework agreement for three years, including an option for extension for a further three year-term. The framework agreement contains an option for ISS to terminate the underlying agreement for an entire country or the entire commitment with four weeks notice, to the end of a quarter subject to payment of a termination amount. The majority of the underlying agreements have a duration of 3-4 years. The disclosed contingent liablity includes ISS A/S's total leasing commitment assuming no early termination of any agreement.

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

January 1 – December 31. Amounts in DKK millions

16. Related party transactions

The sole shareholder of ISS A/S, FS Funding A/S, has controlling influence in ISS. The ultimate controlling company of ISS is FS Invest Sarl (Luxembourg), which is 55% owned by funds advised by EQT. Related parties to ISS A/S with a significant, but not controlling influence are:

Members of the Board of Directors and the Executive Management Board
Apart from remuneration as described in note 2 of this financial statements, there were no significant transactions with members of the Board of Directors or the Executive Management Board during the year. For a description of business relationships see below.

ISS's Board of Directors' and Managing Director's external directorships and external executive positions

	Board Member	Executive Position
Board of Directors		
Leif Östling	Scania AB, AB SKF, Svenskt Näringsliv (Confederation of Swedish Enterprise) and Teknikföretagen (The Association of Swedish Engineering Industries).	President and CEO of Scania AB.
Ole Andersen	Contex Holding A/S, Aleris AB and Brandtex Group A/S.	Head of the Copenhagen office of EQT Partners.
Jørgen Lindegaard	Telenor ASA, Efsen Engineering A/S.	President and CEO of SAS Group.
Sanjay Patel	Ahlsell AB and R.L. Winston Rod Company. Advisor to International Asset Transactions, SmartAnalyst and the India Real Estate Opportunities Fund.	Co-head of Private Equity in Europe for the Principal Investment Area of Goldman Sachs.
Christoph Sander	–	–
Richard Sharp	Goldman Sachs International and Cognis GmbH & Co. KG.	Head of the Principal Investment Area of Goldman Sachs in Europe.
Peter Korsholm (alternate)	Contex Holding A/S (deputy director) and Brandtex Group A/S.	Partner at EQT Partners.
Steven Sher (alternate)	Ahlsell AB and Rhiag Group Ltd.	Vice-President in Europe for the Principal Investment Area of Goldman Sachs.
Managing Director		
Steen Parsholt	Aon Denmark A/S, Bakmann Holding A/S, Company Watch Ltd., and Cura Management A/S.	–

Affiliates
ISS A/S had the following transactions with affiliated companies. All transactions were made on market terms.
• ISS A/S charged royalty and management fee to operating companies, which is disclosed as revenue.
• ISS A/S paid management fees to ISS Management A/S, see note 4, Management fee.
• ISS A/S received/paid interest from/to affiliates, see note 7, Net finance income.
• ISS A/S paid/received joint taxation contribution equal to 28% of taxable income to/from FS Equity A/S (the ultimate parent company in Denmark), see note 8, Taxes.
• ISS A/S received dividends from ISS Global A/S, see note 12, Investments in Subsidiaries.
• ISS A/S paid for facility services provided by ISS Facility Services A/S, 9 DKK million in 2005 (8 DKK million in 2004).

Apart from the above there were no other material transactions with related parties and shareholders during the year.

January 1 – December 31. Amounts in DKK millions

17. Transition to IFRS

As stated in note 1, Significant accounting policies, these are ISS A/S's first financial statements prepared in accordance with IFRS as adopted by the EU.

The accounting policies under IFRS set out in note 1 have been applied consistently in preparing the financial statements as of and for the year ended December 31, 2005, and in the comparative information presented in these financial statements as of and for the year ended December 31, 2004, and in the preparation of the opening IFRS balance sheet at January 1, 2004 (the date of transition).

In preparing the opening IFRS balance sheet, ISS A/S has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to IFRS has affected ISS A/S's financial position, financial performance is set out in the following table and the notes that accompany the table.

		January 1, 2004			2004	December 31, 2004		
	Note	Assets	Liabilities	Equity	Net Profit	Assets	Liabilities	Equity
According to previous GAAP		7,996	362	7,634	131	8,651	315	8,336
Share-based payments	1	–	–	–	(8)	–	–	–
Subsidiaries to cost or recoverable value	2	1,359	–	1,359	45	1,486	–	1,486
Tax impact on the above adjustments	3	–	–	–	2	–	–	–
Total adjustments		**1,359**	**–**	**1,359**	**39**	**1,486**	**–**	**1,486**
According to IFRS		**9,355**	**362**	**8,993**	**170**	**10,137**	**315**	**9,822**

1. Equity-settled, share-based compensation plans were under previous GAAP only affecting equity. Under IFRS 2, the fair value of the employee services received in exchange for the grant of the options, warrants or shares is recognized as an expense, and allocated over the vesting period.

   According to the transitional provisions in IFRS 2, "Share based Payment", instruments granted after November 7, 2002, with vesting date after January 1, 2005, should be expensed as outlined above. ISS A/S's instruments subject to these transitional rules are warrants granted to certain managers and employees in June 2003 and November 2003. Following rulings by the Danish Supreme Court in 2004 certain of these warrants are considered vested at the time of grant contrary to the conditions set out in the grant.

   For the year ended December 31, 2004, the effect of the above was an expense in the income statement of DKK 8 million and a related tax impact of DKK 2 million.

   Since November 7, 2002, ISS A/S has also issued stock options to members of the Executive Management Board and offered employee shares at a discount to the market price. These options and employee shares vested at the time of grant and subscription, i.e. prior to January 1, 2005. Therefore, the IFRS 2 transitional provisions have not impacted ISS A/S's financial statements in regard to these options and employee shares.

2. Investments in subsidiaries has to be accounted for the lower of cost or recoverable value according to IAS 27. The income statement will reflect the dividends received from the subsidiaries.

3. The effect on the income statement for year ended December 31, 2004 was a decrease of the previously reported tax charge for the year of DKK 2 million.

Other transition impacts
In addition to the above changes impacting the recognition and measurement principles, the transition to IFRS impacts the classification and presentation of certain items in the financial statements as set out below:

• A cash flow statement for ISS A/S is included in the financial statements.

• In accordance with IAS 1, "Presentation of Financial Statements", certain balance sheet items have been reclassified in order to comply with the requirement of separate classification of current and non-current assets and liabilities.

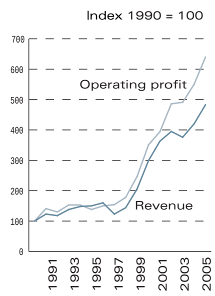
The financial statements is further impacted by additional note disclosures.

"Content" **– Oil on canvas – March 4, 2002.**

Company Information

ISS in Brief

Revenue and operating profit 1990 - 2005 [1]



1) Before other items.

With more than 100,000 business-to-business customers worldwide, ISS is a leading facility services provider with operations in 45 countries in Europe, Asia, Australasia and Latin America.

ISS is among Europe's 10 largest private employers with more than 310,000 employees, the vast majority in the front-line delivery of services.

Through a network of local operations, ISS offers facility services on an international scale, leveraging knowledge and experience between countries to the benefit of its customers. It is ISS's ambition to develop partnerships with its customers, enabling them to focus attention and resources on their core business by outsourcing a broad range of support services to ISS.

ISS milestones

1901	The predecessor of ISS, Kjøbenhavn-Frederiksberg Nattevagt (Copenhagen-Frederiksberg Night Watch), is founded in Copenhagen, Denmark as a small security company with 20 night watchmen
1934	ISS enters cleaning with the establishment of Det Danske Rengørings Selskab A/S (The Danish Cleaning Company) as an independent subsidiary of the security company
1946	The first geographical expansion outside Denmark takes place in Stockholm, Sweden with the establishment of a Swedish subsidiary
1968	The company adopts the ISS name
1973	Overseas expansion is started
1975	Group revenue reaches DKK 1 billion
1977	Listing of ISS shares on the Copenhagen Stock Exchange
1979	ISS acquires a company in the USA
1989	The total number of employees in the Group reaches 100,000
1996	ISS divests its US activities
1997	The strategy aim2002 is launched. This strategy focuses on multi services – selling a number of services to the same customer
1999	ISS acquires Abilis, the second largest European provider of cleaning and specialised services, in a DKK 3.6 billion acquisition, the Group's largest ever. Abilis had about 50,000 employees and an annual revenue of DKK 5.2 billion in 1998. The total number of employees in the Group reaches 200,000
2000	A new five-year strategy, create2005, is launched introducing the facility services concept
2003	ISS's first major pan-European Integrated Facility Services contract signed
2005	A new strategy, Route 101, is introduced aiming at a continuous transformation of ISS towards an Integrated Facility Services company – with a revenue of DKK 101 billion. ISS is acquired by FS Funding A/S, a company indirectly owned by funds advised by EQT Partners and Goldman Sachs Capital Partners, and de-listed from the Copenhagen Stock Exchange. The total number of employees in the Group reaches 300,000

FACILITY SERVICES

ISS's core business is to manage and deliver Facility Services, covering a range of business support services within Cleaning, Office Support, Property Services and Catering.

The services are provided as single services, multi services or as an integrated facility services (IFS) solution.

ORGANIZATION

ISS's head office is located in Copenhagen, Denmark. The business is managed through a country-based organization. This structure enables the Group to customize its service offering to meet local demands while at the same time offering cross-border solutions.

OWNERSHIP

FS Funding A/S, a company indirectly owned by funds advised by EQT Partners and Goldman Sachs Capital Partners, is the owner and single shareholder of ISS A/S.

MANAGEMENT

Decisions regarding the ISS Group's strategy and financing are the responsibility of the Board of Directors and management of ISS A/S. Steen Parsholt is Managing Director of ISS A/S. ISS Management A/S provides certain operational management services to ISS A/S pursuant to a management agreement signed in June 2005.

HISTORY

The history of ISS goes back in time more than a hundred years. The ISS Group was founded as a small Danish security company in 1901. Selected key milestones of the Group's history are listed to the left.

VISION

Lead Facility Services Globally.

ISS operates in 45 countries in Europe, Asia, Latin America and Australasia

Argentina	Croatia	Hungary	Lithuania	Romania	Switzerland
Australia	Czech Republic	Iceland	Luxembourg	Russia	Thailand
Austria	Denmark [2]	India	Malaysia	Singapore	Turkey
Belgium	Estonia	Indonesia	Netherlands	Slovakia	United Kingdom
Brazil	Finland	Ireland	New Zealand	Slovenia	Uruguay
Brunei	France	Israel	Norway	Spain	
Chile	Germany	Italy	Poland	Sri Lanka	
China [1]	Greece	Latvia	Portugal	Sweden	

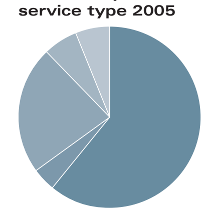
[1] Including Hong Kong
[2] Including Greenland and the Faroe Islands.

FACT SHEET

Key figures 2005

Revenue	DKK 46 billion (EUR 6.2 billion)
Operating profit before other items	DKK 2.7 billion (EUR 356 million)
Employees	310,800

Revenue by service type 2005



- Cleaning services 61%
- Office support services 4%
- Property services 23%
- Catering services 6%
- Integrated facility services 6%

Contact information

ISS A/S
Bredgade 30
DK-1260 Copenhagen K
Denmark

Website:	www.issworld.com
e-mail:	info@group.issworld.com
Tel:	+45 38 17 00 00
Fax:	+45 38 17 00 11

Corporate Communication: Anders Krogenberg Knoth, Vice President

Addresses

MARCH 2006

Argentina
ISS Argentina S.A.
Bazurco 2355 – Piso 4°
C1419FKC Buenos Aires
Tel.: +54 11 4830 4100
Fax: +54 11 4830 4111
Country Manager: Claus E. Madsen
www.ar.issworld.com

Australia
ISS Facility Services Pty Ltd.
Unit 1/12 Mars Road
Lane Cove, NSW 2066
Tel.: +612 94 95 96 97
Fax: +612 94 95 96 88
Country Manager: Flemming Bendt
www.au.issworld.com

Austria
ISS Facility Services GmbH
Brünner Strasse 85
A-1210 Vienna
Tel.: +43 1 29 111 0
Fax: +43 1 29 111 19
Country Manager: Michael Maximilian
www.at.issworld.com

Belgium
ISS N.V.
Steenstraat 20/1
B-1800 Vilvoorde / Koningslo
Tel.: +32 2 26 36 611
Fax: +32 2 26 36 612
Country Manager: Kris Cloots
www.be.issworld.com

Brazil
ISS Servisystem do Brasil Ltda.
Estrada da Ressaca, 960
06844-900 Embu São Paulo
Tel.: +55 11 4785 5400
Fax: +55 11 4704 6252
Country Manager: André Ohl
www.br.issworld.com

Brunei
ISS Thomas Cowan Sdn. Bhd.
1A, Bangunan Menglait 1, Mile 2
Jalan Gadong
Bandar Seri Begawan
BE3919 Brunei Darussalam
Tel.: +673 2 420973
Fax: +673 2 446498
Country Manager: Jose F. Robles, III
www.bn.issworld.com

Chile
ISS Facility Services S.A.
Paicaví
Concepción
Tel.: +56 41 62 37 15
Fax: +56 41 23 28 74
Country Manager: Claus E. Madsen
www.cl.issworld.com

China
ISS Hongrun Facility Services
(Shanghai) Ltd.
13F Yinlu Mansion
1112 Pingliang Road
Shanghai 200090
Tel.: +86 21 6519 5234
Fax: +86 21 6519 6412
Country Manager: Jack Zhou
www.cn.issworld.com

Croatia
ISS Usluzne Djelatnosti d.o.o.
Trnjanska 72
CR-10000 Zagreb
Tel.: +385 1 61 55 868
Fax: +385 1 61 55 869
Country Manager: Davor Turčić
www.hr.issworld.com

The Czech Republic
ISS Facility Services s.r.o.
Pod Visnovkou 1662/21
140 00 Prague 4 - Krc
Tel.: +420 234 034 376
Fax: +420 234 034 378
Country Manager: Ladislav Burian
www.cz.issworld.com

Denmark
ISS Facility Services A/S
Møntmestervej 31
DK-2400 Copenhagen NV
Tel.: +45 38 17 17 17
Fax: +45 38 33 12 11
Country Manager: Jesper Busk
www.dk.issworld.com

Estonia
ISS Haldus Oü
Vilde Tee 129
12613 Tallinn
Tel.: +372 613 9107
Fax: +372 613 9132
Country Manager: Raul Parusk

The Faroe Islands
P/f ISS Føroyar
Tinghusvegur 14, 4. hædd
DK-100 Torshavn
Tel: +298 31 88 84
Fax: +298 31 88 74
Management: Niels Mortensen

Finland
ISS Palvelut Oy
P.O.Box 100, FI-01055 ISS
C Rajatorpantie
Tel.: +358 205 155
Fax: +358 205 150 155
Country Manager: Matti Kyytsönen
www.fi.issworld.com

France
ISS France
65-67, rue Ordener
F-75018 Paris
Tel.: +33 1 44 92 48 48
Fax: +33 1 44 92 48 00
Country Manager: Hubert Boisson
www.fr.issworld.com

Germany
ISS Facility Services GmbH
Keniastrasse 24
D-47269 Duisburg
Tel.: +49 203 9982 200
Fax: +49 203 9982 255
Country Manager: Andreas Weber
www.de.issworld.com

Greece
ISS Facility Services S.A.
14, Thrasimachou Str.
GR-10442 Athens
Tel.: +30 210 2705 600
Fax: +30 210 2705 649
Country Manager: Stefanos Valtaras
www.gr.issworld.com

Greenland
ISS Grønland A/S
Postboks 519
Industrivej 20
DK-3900 Nuuk
Tel.: +299 34 20 50
Fax: +299 34 20 77
Management: Thomas Bruus Jensen
www.gl.issworld.com

Hong Kong
ISS Hong Kong Services Ltd.
12th Floor North, Somerset House
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong
Tel.: +852 2291 5633
Fax: +852 2956 1100
Country Manager: Keith Futcher
www.hk.issworld.com

Hungary
ISS Servisystem Kft.
Gubacsi út. 6
H-1097 Budapest
Tel.: +36 1 216 3948
Fax: +36 1 216 3947
Country Manager: György Györfi
www.hu.issworld.com

Iceland
ISS Island ehf.
Armulí 40
IS-108 Reykjavik
Tel.: +354 5800 600
Fax: +354 5800 666
Country Manager: Gudmundur
Gudmundsson
www.is.issworld.com

India
ISS Cleantec Hospitality
Services PVT LTD
3 B, 3rd floor
Gold Line Business Centre
New Link Road
Malad (w)
Mumbai 400 090
Tel.: +91 22 2879 7505/6
Fax: +91 22 2878 7002
Country Manager: K.J. Jolly

Indonesia
ISS Servisystem, Pt.
Graha Simatupang Menara II, 4th Floor
Jl. TB. Simatupang Kav. 38
Jakarta Selatan 12540
Tel. +62 21 7829455
Fax +62 21 7829438
Country Manager: Houtman
Simanjuntak
www.id.issworld.com

Ireland
ISS Ireland Ltd.
11/13 Malpas St.
Dublin 8
Tel.: +353 1 707 8000
Fax: +353 1 707 8001
Country Manager: David Healy
www.ie.issworld.com

Israel
ISS-Ashmoret Ltd.
26 Hamasger Str.
52157 Tel Aviv
Tel.: +972 3 689 9292
Fax: +972 3 639 7374
Country Manager: Igal Shermister
www.il.issworld.com

Italy
ISS Facility Services srl
Via Tacito 4
I-20094 Corsico (Milano)
Tel.: +39 02 448 131
Fax: +39 02 451 099 64
Country Manager: Claudio Boni
www.it.issworld.com

Luxembourg
ISS Facility Services S.A.
Rue Pletzer, 6
L-8080 Bertrange
Tel.: +352 42 46 20 1
Fax: +352 42 46 20 20
Country Manager: Kris Cloots
www.lu.issworld.com

Malaysia
ISS Facility Services Sdn. Bhd.
No. 18, Jalan 51A/223
Seksyen 51A
46100 Petaling Jaya
Selangor
Tel.: +60 3 7958 1282
Fax: +60 3 7960 3118
Country Manager: Houtman Simanjuntak
www.my.issworld.com

The Netherlands
ISS Facility Services The Netherlands
Atoomweg 464-466
NL-3542 AB Utrecht
Tel.: +31 30 242 43 44
Fax: +31 30 241 39 47
Country Manager: Gerard Brand
www.nl.issworld.com

New Zealand
Manchester Property Care Ltd.
9 Maidstone Street
Auckland
Tel.: +64 9 360 4896
Fax: +64 9 376 4216
Country Manager: Colin Anderson

Norway
ISS Facility Services AS
(Sjølyst Plass 2, Skøyen/Oslo)
Postboks 132, Økern
N-0509 Oslo
Tel.: +47 2288 5000
Fax: +47 2288 5120
Country Manager: Bjørn Nilsen
www.no.issworld.com

Poland
ISS Facility Services Sp. zo.o.
Ul. Jordanowska 2A
PL-04-204 Warsaw
Tel.: +48 22 879 9391
Fax: +48 22 612 5345
Country Manager: Artur Sarnecki
www.pl.issworld.com

Portugal
ISS Portugal
Serviços de Gestão, Lda
Rua Moinho da Barrunchada 4 – 1°dt°
P-2790-109 Carnaxide
Tel.: +351 21 424 6760
Fax: +351 21 424 6799
Country Manager: Luís Andrade
www.pt.issworld.com

Romania
ISS Facility Services srl
12 Domnita Ruxandra St.
Sector 2, Bucharest
Tel.: +40 21 211 47 45
Fax: +40 21 212 08 90
Country Manager: Dan Jacota
www.ro.issworld.com

Russia
Facility Services Rus OOO
Semyonovskaya street, 3-A, Bld. 1.
Malaya
105023 Moscow
Tel.: +7 095 933-44-73
Fax: +7 095 775-17-86
Management: Yevgeny Ilin

Singapore
ISS Facility Services Pte. Ltd.
No. 1, Jalan Kilang Timor
10-00, Pacific Tech Centre
Singapore 159303
Tel.: +65 6 227 9711
Fax: +65 6 225 8340
Country Manager: C.C. Woon
www.sg.issworld.com

Slovakia
ISS Facility Services spol. sr.o.
Pluhová 50/A
831 03 Bratislava
Tel.: +421 2 4920 0511
Fax: +421 2 4463 3554
Country Manager: Honor Ilavský
www.sk.issworld.com

Slovenia
ISS Servisystem d.o.o.
Ptujska cesta 95
2000 Maribor
Tel.: +386 2 450 33 00
Fax: +386 2 450 33 38
Country Manager: Rudi Zupan
www.si.issworld.com

Spain
ISS Facility Services S.A.
C/Fedanci, 8-10
E-08190 Sant Cugat del Vallès
(Barcelona)
Tel.: +34 93 590 3060
Fax: +34 93 675 5220
Country Manager: Joaquim Borràs
www.es.issworld.com

Sri Lanka
Abans Environmental Services (PVT) Ltd.
141, Kirula Road
Colombo 05
Tel.: +94 11 236 9369
Fax: +94 11 236 9555
Country Manager: Pheroze Pestonjee
www.lk.issworld.com

Sweden
ISS Facility Services AB
Årstaängsvägen 11
Box 47635
S-117 94 Stockholm
Tel.: +46 8 681 60 00
Fax: +46 8 681 64 40
Country Manager: Markus Kristiansson
www.se.issworld.com

Switzerland
ISS Holding AG
Riedstrasse 12
CH-8953 Dietikon
Tel.: +41 43 322 3636
Fax: +41 43 322 3637
Country Manager: André Nauer
www.ch.issworld.com

Thailand
ISS Facility Services Co., Ltd.
92/9 Moo 7, Phaholyothin Road
Anusawaree, Bangkhen
10220 Bangkok
Tel.: +66 2 552 5015
Fax: +66 2 552 1260
Country Manager: Theinsiri
Theingviboonwong
www.th.issworld.com

Turkey
ISS Tesis Yönetim Hizmetleri A.S.
Kore Sehitleri Cd.
Mithat Uluünlübey Sk.
34394 Zincirlikuyu – Istanbul
Tel.: +90 212 217 8575
Fax: +90 212 217 8576
Country Manager: Cavit Habib

The United Kingdom
ISS UK Ltd.
Wells House
65 Boundary Road
Woking
Surrey GU21 5BS
Tel: +44 1483 754 900
Fax: +44 1483 754 999
Country Manager: David Openshaw
www.uk.issworld.com

Uruguay
ISS Uruguay S.A.
Francisco Acuña de Figueroa 2065
11800 Montevideo
Tel.: +598 (2) 924 6170
Fax: +598 (2) 924 1626
Country Manager: Jorge A. Rodriguez
www.uy.issworld.com

Financial Review 1996 – 2005

Amounts in DKK millions (unless otherwise stated)

	EUR millions [1]	IFRS		Danish GAAP									
Financial highlights	**2005**	**2005**	**2004**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996** [2]
Revenue	6,225	46,440	40,355	40,355	36,165	37,984	34,852	28,719	19,802	13,801	11,782	10,738
Operating profit before other items	355	2,650	2,260	2,279	2,032	2,010	1,633	1,454	1,021	735	639	553
Operating profit	308	2,296	2,081	2,210	1,957	2,015	1,609	1,450	1,028	757	624	446
Net finance costs	(70)	(521)	(335)	(343)	(265)	(361)	(310)	(244)	(128)	(80)	(54)	(76)
Net profit for the year	127	948	837	150	316	264	237	234	254	223	458	(1,851)
Free cash flow [3]	144	1,074	1,363	1,396	1,942	1,739	1,058	874	795	460	309	302
Depreciation and amortization	(88)	(659)	(617)	(617)	(587)	(603)	(551)	(468)	(351)	(255)	(228)	(234)
Total assets	4,271	31,865	30,805	29,676	23,385	22,412	22,419	17,164	13,696	7,139	4,668	4,639
Goodwill	2,224	16,592	15,384	15,494	12,465	12,669	12,022	9,522	7,576	2,995	1,615	1,697
Total equity	306	2,285	8,822	8,436	7,741	7,419	6,678	5,725	4,453	1,444	1,310	888
Carrying amount of net debt [3]	2,132	15,905	7,462	7,462	4,785	5,604	6,317	4,357	3,050	1,898	338	678
Non-interest-bearing debt, net [3]	59	443	238	238	(10)	–	–	–	–	–	–	–
Interest-bearing debt, net [3]	2,073	15,462	7,224	7,224	4,795	5,604	6,317	4,357	3,050	1,898	338	678
Dividend paid	937	6,994	177	177	88	–	–	–	–	60	–	–
Key figures [3]												
Operating margin before other items, %	5.7	5.7	5.6	5.6	5.6	5.3	4.7	5.1	5.2	5.3	5.4	5.1
Interest coverage	6.3	6.3	8.6	8.4	9.9	7.2	7.0	7.9	10.7	12.4	16.1	10.4
Basic earnings per share, DKK	2.7	19.9	18.4	3.0	6.5	5.7	5.5	5.4	7.0	9.3	8.3	3.4
Earnings per share before impairment/ amortization etc. of intangibles, DKK	3.6	27.2	27.7	29.5	26.8	25.8	21.6	21.1	18.6	16.4	13.3	8.1
Earnings per share before impairment/ amortization of intangibles (adj.), DKK [4]	5.4	40.2	28.3	30.8	27.6	26.4	22.2	21.7	19.1	16.9	13.6	8.3
Free cash flow per share, DKK	3.1	22.8	30.7	31.5	44.1	40.2	25.5	22.3	23.7	15.5	10.4	10.2
Dividend paid per share, DKK [5]	20.6	153.5	4.0	4.0	2.0	–	–	–	–	2.0	–	–
Equity ratio, %	7.2	7.2	28.6	28.4	33.1	33.1	29.8	33.4	32.5	20.2	28.1	19.1
Net debt to book equity ratio, %	676.8	676.8	81.9	86.5	61.9	75.5	94.6	76.1	68.5	131.5	25.8	76.3
Average number of shares, millions	47.09	47.09	44.32	44.32	44.00	43.28	41.50	39.23	33.50	29.76	29.76	29.76
Number of shares end of period, millions	47.70	47.70	47.34	47.34	44.31	43.93	42.22	40.17	38.21	29.76	29.76	29.76
Number of employees at year end	310,800	310,800	273,500	273,500	245,000	248,500	259,800	253,200	216,700	137,800	106,600	103,400

Note: Except for the key figures derived from the consolidated financial statements on pages 88-148 of this report, the key figures above are not measures of financial performance under Danish GAAP or IFRS. ISS included these financial measures because it belived that they are useful measures of ISS's financial performance. Other companies, including those in ISS's industry, may calculate similarly titled financial measures differently. The applied accounting principles are described in note 1 and the impact of adopting IFRS is analyzed in note 37 to the consolidated financial statements.

1) The exchange rate used is of 31 December 2005 (EUR/DKK = 7.4605).

2) Comparative figures for 1996 are exclusive of ISS Inc.

3) See page 177 for definitions.

4) Adjusted for the number of shares assumed repurchased if the dividend amount each year instead was used for repurchase of shares at the prevailing share price at the time of the dividend pay out. The number of shares assumed repurchased is cumulated from 1995. In total, approximately 19 million shares are assumed repurchased in the period 1995 to 2005.

5) Dividends paid per share consisted of an ordinary dividend of DKK 5 per share declared at the Annual General Meeting in April 2005, and interim dividends of DKK 25.4, DKK 93.4 and DKK 29.7 declared in July, August and November 2005, respectively.

Definitions

Adjusted EBITDA	=	Operating profit before other items + Depreciation and amortization
Basic earnings per share	=	$\frac{\text{Net profit for the year attributable to the shareholders of the company}}{\text{Average number of shares}}$
Carrying amount of net debt	=	Long-term debt + Short-term debt - Receivable from affiliates - Securities - Cash and cash equivalents
Cash conversion, %	=	$\frac{\text{Free cash flow x 100}}{\text{Profit before impairment/amortization of intangibles}}$
Earnings per share before impairment/amortization of intangibles	=	$\frac{\text{Profit before impairment/amortization of intangibles}}{\text{Average number of shares}}$
EBITDA	=	Operating profit + Depreciation and amortization
Equity ratio, %	=	$\frac{\text{Total equity x 100}}{\text{Total assets}}$
Free cash flow	=	Cash flow from operating activities - Investments in intangible assets and property, plant and equipment, net
Free cash flow per share	=	$\frac{\text{Free cash flow}}{\text{Average number of shares}}$
Interest-bearing debt, net	=	Carrying amount of net debt - Non-interest-bearing debt, net
Interest coverage	=	$\frac{\text{Operating profit before other items + Depreciation and amortization}}{\text{Net finance costs}}$
Net debt to book equity ratio, %	=	$\frac{\text{Interest-bearing debt, net x 100}}{\text{Total equity}}$
Non-interest-bering debt, net	=	Sum of non-interest-bearing items included in carrying amount of net debt, e.g. marked-to-market value of interest rate swaps, unamortized gains from settlement of interest rate swaps and unamortized loan costs.
Operating margin, %	=	$\frac{\text{Operating profit before other items x 100}}{\text{Revenue}}$

About the artist

Thor Lindeneg was born on April 24, 1941 in Copenhagen, where he still lives and works.

He belongs to the surrealistic school called Fantastic Figuration. His works are characterized by very impressive technique and by imaginative, surrealistic motifs encompassing themes taken from the world of dreams and spirituality. Thor Lindeneg's works of art border on the supernatural, manipulating the motifs so a to generate a metaphysical experience in the observer. His paintings are generally open to a multitude of interpretations, depending on the observer's attitude to this particular genre.

Many of Thor Lindeneg's works are like picture puzzles waiting to be solved. They generally require decoding, and a wealth of subsidiary stories may be hidden inside each of them.

Laying open the more secret aspects of our lives, with a great sense of humor, Thor Lindeneg expands our perception of reality through his works of art.

ISS A/S
Bredgade 30
DK-1260 Copenhagen K
Denmark

Phone: +45 38 17 00 00
Fax: +45 38 17 00 11
E-mail: info@group.issworld.com
Website: www.issworld.com

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