

# ***ISS GLOBAL A/S***

## ***Annual Report 2003***

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# ***Report from Management***

## Key Figures <sup>1)</sup>

Amounts in DKKm	2003	2002	2001	2000	1999
Turnover	36,174	37,991	1,991	1,826	289
Operating profit <sup>2)</sup>	2,234	2,187	108	101	15
Financial income and expenses, net	(306)	(410)	(25)	(30)	(4)
Ordinary profit before goodwill amortisation	976	796	36	34	3
Discontinued business, net of tax	-	-	(5)	-	-
Net profit for the year	53	(73)	(17)	6	(2)
Cash flow from operating activities	1,898	1,875	-	-	-
Free cash flow <sup>3)</sup>	1,485	1,380	-	-	-
<b>Total assets</b>	<b>21,485</b>	<b>21,738</b>	<b>952</b>	<b>954</b>	<b>828</b>
Goodwill	12,465	12,669	419	432	381
Interest-bearing debt, net <sup>3)</sup>	6,806	7,244	157	238	304
Total equity	5,978	6,018	441	357	238
<b>Financial ratios <sup>3)</sup></b>					
Operating margin, %	6.2	5.8	5.4	5.5	5.2
Interest coverage	9.2	6.8	5.6	4.4	5.7
Cash conversion, %	152	173	-	-	-
Equity ratio, %	27.8	27.7	46.4	37.4	28.7
Debt to book equity ratio, %	113.9	120.4	35.6	66.7	127.8
Employees on full-time, %	55	53	91	92	92
Number of employees	244,953	248,425	43,850	42,426	39,771

<sup>1)</sup> With effect from 1 January 2002 ISS Overseas A/S, ISS Asia A/S, ISS Europe A/S and ISS Nordic A/S were merged with ISS Overseas A/S (renamed to ISS Global A/S) as the continuing company. Comparative figures for 1999-2001 only represent ISS Overseas A/S and have not been restated.

<sup>2)</sup> Before other income and expenses and royalty.

<sup>3)</sup> Please refer to list of definitions page 56.

## Company Report

ISS Global A/S is a wholly owned subsidiary of ISS A/S (ultimate parent) and is included in the Consolidated Financial Statements for 2003 of ISS A/S. ISS Global A/S owns – directly or indirectly – the ISS Group's operating companies.

### FOCUS OF THE YEAR

Market conditions in 2003 were harder than ISS has experienced for a long time. The stagnating or even recession-like macroeconomic conditions in many countries put prices under pressure and induced customers to cut back in general and reduce demand for one-off jobs. Other external factors such as the SARS-outbreak and declining currency exchange rates were among the challenges the Group had to deal with during 2003.

In this environment and taking into consideration that ISS operates in an industry affected late in the economic cycle, ISS maintained its focus on profitability and cash generation, recording an improvement in the operating margin and a cash conversion ratio above 100%. Due to divestments, declining currency exchange rates and contract trimming in 2002, turnover declined.

Having delivered on its two primary goals, ISS expanded the agenda during 2003 to include a stronger focus on organic growth. This was reflected in investments and other initiatives throughout the Group, aimed at accelerating organic growth, whilst consolidating the achievements in operating margin and cash conversion. The effect hereof is expected to materialise gradually in the years ahead.

While the Group as a whole and most of the Group's businesses performed according to plan, certain businesses did not live up to expectations and management action was taken.

In the fourth quarter of 2003, initiatives were implemented to strengthen management at country level and re-allocate resources to organic growth investments. This involved management changes in several countries, disposal of vacant office space and a merger of marketing, sales, communication and training functions of the Group's Danish operation and the corporate head office of ISS A/S.

The SARS-outbreak was a significant, external event, which gave rise to operational challenges in a number of ISS' operations in Asia. At the same time, it provided an opportunity for ISS to

demonstrate its commitment to serving the interests of all stakeholders. At hospitals in Hong Kong and Singapore, ISS employees, demonstrating loyalty and dedication, helped in the efforts to prevent the virus from spreading.

During 2003, ISS experienced an enhanced interest from customers in exploiting the advantages of the facility services concept offered by ISS.

In May 2003, the Group won a comprehensive pan-European facility services contract with Computer Science Corporation (CSC). In a partnership with CSC, ISS will deliver a range of facility services to CSC, and CSC will provide IT services to ISS. Under the 10-year agreement, ISS will assume responsibility for delivering a full range of facility services comprising cleaning services, property services, canteen services and office support services at CSC-sites in a number of European countries. The responsibility for the service tasks will be assumed by ISS gradually, commencing at CSC's offices in Germany, the Netherlands and the Nordic countries. The agreement is expected to be fully implemented over a period of three to five years.

The trend towards facility services was also apparent on the international level and ISS secured a number of new integrated facility services contracts, both in Northern Europe and in countries where such contracts were not previously part of the portfolio. Examples of new customers with an integrated facility services solution include Delta Lloyd in the Netherlands, Sonofon in Denmark, Siemens in Norway, Arina in Finland, OMV in Austria, and SBB in Switzerland.

The new contracts with CSC and other large customers illustrated the progress of ISS' facility services concept on an international level and fuelled the interest of a number of potential facility services customers.

### GROUP PERFORMANCE

Due to divestments, declining currency exchange rates and contract trimming in 2002, turnover declined. As stated above, ISS delivered on its two primary goals for 2003, operating margin and cash conversion.

The macroeconomic climate meant that organic growth came under pressure in some countries. This resulted from a general reduction in demand for services. Despite the generally weak market, overall Group performance was in line with the goals for the year. However, with operations in 38

countries it is likely that some business units will disappoint. The most significant disappointments and challenges in 2003 are discussed below.

## **OPERATIONAL CHALLENGES**

**Denmark** ISS Denmark enhanced its profitability in 2003. However, excluding the facility services contracts with CSC and Sonofon, new sales and contract losses were at unsatisfactory levels and Management found that a new approach to customer focus and sales was needed. Consequently, in December 2003, a number of management positions were strengthened and certain functions were merged with functions at head office of ISS A/S, thereby freeing resources for investments in organic growth.

**Germany** The goals set out for ISS Germany in regard to profitability enhancement and organic growth were not met. During 2003, ISS decided to strengthen the country management by transferring experienced ISS-managers with proven track records to key positions at ISS Germany. The new management team initiated a range of actions with the aim of stabilising the organisation, strengthening sales and improving profitability at contract level. The results of these efforts are expected to feed through in the years ahead. As a consequence of the performance issues and the difficult macroeconomic environment, goodwill amortisation relating to Facility Services in Germany was accelerated.

**Switzerland** The business in Switzerland performed below expectations and local forecasts. Due to integration issues, the newly acquired landscaping activities diluted the financial performance. Therefore, steps have been taken to strengthen operational and financial management in ISS Switzerland with the objective to improve performance and enhance the capacity to handle integration of acquired companies effectively.

**Damage Control** Business conditions were tough for Damage Control in Norway in 2003. Due to unusually dry weather conditions and over-capacity in the market, the activity level declined. The financial performance was adversely impacted by a failure to adjust the organisation in time. A new management team was appointed and a downsizing of operations and strengthening of management systems are being implemented. Furthermore, in an expansive move, ISS acquired the damage control activities of one of its competitors, Anticimex Building Environment, in December 2003 in an attempt to build critical mass. Effective 1 February 2004, activities related to industrial services with an

annual turnover of approximately DKK 28 million were divested, thereby strengthening the focus of Damage Control on its core activities.

**Health Care** The health care activities were impacted by downsizing of the Swedish public health care sector. ISS' operations were not sufficiently adapted to the new market situation, causing financial performance to fall below expectations. A new experienced management team has been appointed and adjustments of the cost base are being implemented.

## **FINANCIALS**

Turnover in 2003 was DKK 36.2 billion against DKK 38.0 billion in 2002. The turnover for 2003 was negatively influenced by currency adjustments, divestments of non-core activities and to a lesser extent contract trimming in 2002.

The currency adjustments were in particular related to the Pound Sterling, Norwegian kroner, the Brazilian real and Asian currencies linked to the US dollar.

Divestments of non-core activities primarily related to the activities within aviation and the elderly care services in 2002.

The contract trimming in 2002 in Belgium, Brazil, Denmark, France, Germany and the Netherlands lowered the turnover base. The contract trimming was finalised in 2002, except for Brazil, where it was initiated in late 2002 and concluded in the beginning of 2003. Consequently, the Group's 2004 turnover will not be impacted by extraordinary contract trimming.

Operating profit before other income and expenses and royalty increased by 2% to DKK 2,234 million.

Cash flow from operating activities was DKK 1,898 million, and the free cash flow was DKK 1,485 million. The cash conversion ratio was 152%.

The free cash flow led to a reduction in interest-bearing debt, net from DKK 7,244 million to DKK 6,806 million at 31 December 2003.

## **REGIONAL DEVELOPMENT**

Turnover in Northern Europe, comprising the UK, Sweden, Denmark, Norway, Finland, Ireland, Iceland and Greenland, was DKK 16,671 million, a 9% decrease compared with 2002. The turnover development was primarily due to the divestments of the elderly care activities and the airside aviation activities and negative currency

adjustments related to Pound Sterling and Norwegian kroner. The operating margin was 6.1%, a slight decrease from 2002. All Facility Services businesses in the region achieved increasing operating margins but the performance in Damage Control and Health Care offset this improvement.

Continental Europe includes France, the Netherlands, Belgium, Germany, Switzerland, Spain, Austria, the Czech Republic, Italy, Greece, Portugal, Slovenia, Slovakia, Poland, Hungary, Romania, Luxembourg and Croatia. Turnover in the region was DKK 17,621 million, marginally down compared with 2002. The continued focus on profitability impacted growth, in particular in Belgium, France, Germany and the Netherlands. The operating margin increased from 5.8% to 6.1%, driven by performance enhancement in Austria, Belgium, the Netherlands and Spain.

Overseas, consisting of Asia, South America, Australia and Israel, had a turnover of DKK 1,882 million in 2003, down 3% from 2002. The turnover development was primarily due to currency adjustments. The operating margin increased from 4.5% to 6.3%, primarily due to the effects of a turnaround in Brazil and the full-year effect of the Eurogestion acquisition in 2002.

### COMPETENCE ENHANCEMENT

A main priority for ISS in 2003 was to continue the development of the facility services concept as defined in the strategy plan **create2005**. The Group's 38 country organisations are at different stages in the transformation but all are progressing towards the same goal - to be able to offer an integrated service solution comprising a broad range of services to their customers.

The transformation to facility services was reflected in the nature of the acquired businesses and a number of concept development initiatives throughout the Group. A Facility Services Development Centre was established as a centre of excellence for the entire Group in the field of facility services and implementation. Other initiatives included a centrally coordinated project to develop washroom services in Denmark, Hong Kong, Norway, Singapore, Sweden and Thailand, a project that includes the launch of a range of hygiene solutions, aiming at both new and existing customers. A substantial business has been built in landscaping. The pest control segment was strengthened organically and through selective acquisitions in Australia, France, Ireland, the Netherlands, Spain, and Switzerland.

In order to bring the enhanced service offering and competencies to the market place, approximately 120 new sales people were recruited throughout the Group. This added some 19% to the sales force.

### ACQUISITIONS

Acquisition activity remained relatively low. This reflects that geographical platforms have been established in almost all European countries and that the focus in 2003 was on integration and performance enhancement.

In 2003, ISS made 51 bolt-on acquisitions that, going forward, are expected to contribute annual turnover of approximately DKK 1.3 billion, equivalent to approximately 3% of Group turnover. ISS uses EVA<sup>®</sup> (Economic Value Added) as the principal criteria when evaluating the financial implications of acquisitions, and most acquisitions carried out in 2003 are expected to be EVA<sup>®</sup> accretive within 12 months.

Acquisition efforts focused on companies with the potential to strengthen ISS' competencies and enhance the service offering. The majority of acquisitions were in facility services and particular focus was devoted to landscaping and pest control. Acquisitions within these services accounted for 53% of the acquired turnover on an annualised basis.

From 1 January – 4 March 2004, 25 acquisitions have been made adding approximately DKK 883 million to turnover on an annualised basis. Acquisitions are listed on pages 58-59 of this report and continuously updated on the Group's website: [www.issworld.com](http://www.issworld.com).

In 2004, ISS will aim at increasing the acquisition activity compared with 2003. The primary focus will remain on bolt-on acquisitions, defined as acquisitions that do not exceed 5% of Group turnover on an individual basis. Acquisitions that strengthen the Group's competencies, enhance its service offering or enable the Group to establish critical mass will be targeted.

### OUTSOURCING OF IT

In May 2003, ISS signed a 10-year IT outsourcing agreement with CSC simultaneously with CSC signing a facility services contract with ISS. Under the contract, CSC assumes responsibility for ISS' IT systems including the development, maintenance and operations of applications and infrastructure at ISS-sites in Europe. A plan for the transfer of responsibility to CSC has been agreed; as per 31 December 2003, CSC managed IT systems for ISS in 18 countries. As

part of the future relationship, ISS and CSC intend to launch an IT transformation plan to develop, implement and operate a common IT platform for all ISS businesses.

### **CORPORATE BOND PROGRAMME**

The Company listed a Euro Medium Term Note (EMTN) programme in September 2003 and subsequently launched its inaugural bond issue. The bond issue was assigned a BBB+ rating with Stable Outlook by Standard & Poor's.

The EUR 850 million bond issue has a maturity of seven years and an annual coupon of 4.75%. Following the launch of the bond issue, ISS swapped the fixed interest rate of the bond into a floating rate. The purpose of establishing the EMTN programme is to gain access to an efficient and flexible source of financing. Accordingly, the proceeds from the bond issue were used to repay existing bank loans.

### **SUBSEQUENT EVENTS**

Apart from the events described in this Annual Report, Management is not aware of events subsequent to 31 December 2003, which are expected to have a material impact on the Group's financial position or outlook.

### **OUTLOOK**

The outlook set out below should be read in conjunction with "Forward-looking statements" on this page and the description of risk factors set out on pages 11-15 of this report.

At the prevailing currency exchange rates, ISS in 2004 expects turnover and Ordinary profit before other income and expenses and royalty to be higher than in 2003.

### **Forward-looking statements**

This Annual Report contains forward-looking statements within the meaning of the US Private Securities Litigation Act of 1995 and similar laws in other countries regarding expectations to the future development, in particular future sales, operating efficiencies and business expansion. Such statements are subject to risks and uncertainties as various factors, many of which are beyond ISS' control, may cause the actual development and results to differ materially from the expectations contained in the Annual Report. Factors that might affect such expectations include, but are not limited to, overall economic and business conditions, fluctuations in currencies, the demand for ISS' services, competitive factors in the service industry, operational problems in one or more of the Group's business units and uncertainties concerning possible acquisitions and divestments.

Reference is made to the description of risk factors on pages 11-15 of this report.

### **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.

## **Risk Factors**

ISS strives to counter and reduce the risks which the Group is able to impact. However, ISS wishes to emphasise that any investment in shares or bonds will be subject to risk. Such factors as developments in the financial markets, the Group's operating performance etc. could cause an investment to be loss making. An investor could lose all of his or her investment. In addition to the financial market risk, ISS' risk profile reflects both the Group's day-to-day operations and its continued expansion. 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 is subject, nor are they listed in any order of priority.

### **MARKET TRENDS**

The potential underlying growth in the demand for services offered by ISS is estimated to be on a level equalling the long-term growth in the gross domestic products of the relevant countries. The development of the outsourced part of the market, which is available to ISS, is considered more volatile than the total market for facility services, as it may be impacted by political decisions, public opinions, positive and negative experiences of companies, public institutions and individual users, media coverage of isolated events, etc. These factors may dampen growth in outsourcing, cause contracts to be discontinued or reduce the Group's ability to achieve satisfactory growth rates in the future. In any of these cases, the Group's growth and earnings and general financial position may be adversely affected.

The service industry is normally considered to be less sensitive to economic cycles than certain other industries. However, ISS is not immune to the external economy and macroeconomic cyclical - both low and high economic activity - represents a challenge to ISS. Periods of recession may have an adverse impact on prices and the demand for services, e.g. if customers downscale their business or reduce demand for one-off jobs. In periods of rapid economic growth, ISS may encounter problems in recruiting qualified employees or of generally increasing staff costs.

Government intervention aiming at improving pay and working conditions may increase the costs incurred by the Group. ISS is also subject to political risks concerning changes to legislation

governing taxation, duties and social charges, etc, which may cause ISS to incur higher costs or reduce its competitive strength relative to in-house service providers. Among other issues, problems concerning deductibility of input VAT may reduce ISS' competitiveness relative to in-house service providers. ISS expects that it will be possible over time to offset part of the effects of changes in pay and working conditions, taxation and social charges when renegotiating contracts with customers, but there can be no assurance that this will be possible. Therefore, changes to legislation may adversely affect the Group's earnings.

In many countries, the public sector is an important segment of ISS. The Group's business with public sector customers is affected by political and administrative decisions concerning the level of public spending. Thus, decisions to cut down on public spending may have an adverse impact on the Group's growth and earnings.

### **COMPETITION**

Competition in ISS' markets is characterised by many service providers, especially within the area of general cleaning. Therefore, there is a risk that over-capacity and increased price competition may have a material, adverse impact on the Group. ISS strives to counter this risk by focusing on integrated facility services solutions targeted at and tailored to individual customers in selected customer segments. Such service solutions comprise a number of more or less specialised services, some of which include cleaning, property services, canteen services and office support. One of the factors that make facility services contracts attractive is that they often enable ISS to forge closer ties with the customer. However, competition may intensify if service providers, who have historically focused mainly on providing single services, move into the market for facility services. Moreover, there is a risk that new competitors and a changed competitive environment may affect ISS' competitiveness. Thus, there can be no assurance that the Group's facility services strategy will enable ISS to achieve satisfactory operating profits.

Although the Group has issued internal guidelines concerning compliance with competition law, individual local managers may act against Group instructions and deliberately violate the rules and engage in illegal, punishable activities such as price fixing or allocation of markets or customers with competitors; activities for which ISS may be held responsible and which

may have a negative impact on ISS' reputation, market position and financial position. Likewise, an ISS subsidiary may inadvertently be charged for illegal collaboration with its competitors simply by virtue of its participation in the activities of an industry association.

### **MANAGING CONTRACTS**

ISS strives to increase the share of turnover generated from integrated facility services contracts. Generally, such contracts place greater demands on the service provider due to their scope and complexity compared to single service contracts. ISS' efforts to penetrate new service areas increases the risk of mismanagement and other difficulties during the initial phase because of the Group's limited experience in such new service areas and markets. When negotiating contracts, ISS endeavours to counter such risks by obtaining a clear understanding of the customer's expectations for the services being outsourced, including definitions of success criteria.

The profitability of large, longer-term contracts depends on ISS' ability to integrate services, calculate prices and manage day-to-day operations. Miscalculations in large contracts or subsequent problems in the management of contracts may have a material, adverse impact on the Group. In addition to the direct adverse financial impact, the discontinuance of contracts may have indirect, adverse effects on, for example, ISS' reputation and may affect the Group's ability to win similar contracts.

The Group's conclusion of major Private Finance Initiative (PFI) contracts and other similar contracts is in some cases subject to ISS participating with an equity stake in the Company signing the PFI contract with the public authorities. This affects the risk for the Group. The ever-increasing scope of the Group's contracts, including existing PFI contracts, some of which are for 30-year terms, imply a general risk for the Group. Large contracts often subject the Group to penalties or fines in the event that the quality of the services provided fails to meet agreed standards or if the Group otherwise fails to comply with the contracts. Terms and conditions of major contracts may, accordingly, adversely affect the Group in the event that the agreed benchmarks are not met or if contracts are otherwise not complied with due to conditions for which ISS is responsible or for which ISS bears the risk. Equally, inflation, deflation, wage inflation etc. might negatively affect ISS if the service contract does not provide for adequate price compensation.

ISS may contract with sub-contractors for the provision of certain services, inter alia, in connection with integrated facility services contracts. In such cases, the Group is exposed to risk relating to managing sub-contractors and the risk that the sub-contractors are not able to provide services that meet the customer's quality benchmarks or generally comply with legislative requirements. Furthermore the Group is exposed to the risk that sub-contractors have inadequate insurance cover or inadequate financial strength to honour financial claims resulting from damages or losses inflicted on the customer by sub-contractors.

### **GROWTH AND ACQUISITIONS**

Organic growth and acquisitions place the Group's management and financial resources under pressure. ISS uses growth models as a management tool in making financial assessments of the Group's growth potential, both from organic growth and from acquisitions. Such assessments are subject to a number of assumptions concerning profitability, growth, interest rates, valuation of companies and other assumptions. There can be no assurance that the applied models and management's assessment of the growth potential take all relevant factors into consideration. Other factors not accounted for in the models and management assessments, may cause actual developments to differ significantly and adversely from expectations.

ISS' ability to manage growth relies on the Group's ability to integrate operations acquired. A rapid integration of acquired companies is important in order to maintain an efficient organisation. The risk that the integration takes longer than anticipated or otherwise creates problems may cause actual results to deviate from expectations.

Acquisitions are generally priced on the basis of a number of assumptions, which are subject to substantial uncertainty. There can be no assurance that, following integration into the Group, an acquired operation will be able to maintain its customer base, operate at the assumed margins or generate the expected cash flows. Furthermore acquisitions of companies expose the Group to the risk of unforeseen obligations towards employees, customers, suppliers, sub-contractors, public authorities or other parties. Such obligations may adversely affect the Group.

### **INTERNATIONAL OPERATIONS**

ISS currently operates in 38 countries. In 2003, approximately 90% of the Group's total turnover

was generated outside Denmark. Because of the international scope of the activities, the Group is subject to a number of risks and challenges, including the management of a decentralised international business operation and the fulfilment of legislative requirements, including tax rules and social security legislation, in many different jurisdictions. Especially, conflicting and/or complicated tax rules and social security legislation – and changes in such rules and legislation – mean that there is a risk that the Group in one or more countries inadvertently makes less optimal choices or commits mistake when filing tax returns etc. Equally, the risk of inadvertently making business decisions that lead to unforeseen tax consequences exists, since tax rules can be complex and are often subject to uncertainty as to their interpretation. In spite of the fact that ISS employs people with special expertise within the tax area and/or uses external specialist assistance, there can be no assurance that circumstances as described above will not lead to significant tax expenses that were neither foreseen nor intended.

The Group delegates considerable responsibility to its subsidiaries. The management and performance of the subsidiaries are subject to controlling activities performed by ISS A/S' controlling function. The Company strives to reduce the risk of irregularities by, inter alia, making regular visits to the individual subsidiaries accompanied by the Group's external auditors and applying a comprehensive reporting system covering all subsidiaries. Despite these efforts, there can be no assurance against the occurrence of irregularities, unintended accounting misstatements or breaches of local legislation, which could have a material adverse effect.

#### **CURRENCY AND INTEREST RATE EXPOSURE**

The Group's currency and interest rate exposure is managed and controlled in accordance with a treasury policy approved by the Board of Directors of ISS A/S. The financial risk and the hedge of risks are described on pages 27-28 of this report. Most often, currency fluctuations have no immediate impact on the Group's subsidiaries as the turnover and costs are normally denominated in the same currency. Currency movements may, however, materially affect the economic environment in which the subsidiaries operate. Currency fluctuations may also have a significant impact on the year-on-year growth of sales, earnings and cash flow, when measured in the Group's reporting currency, Danish kroner. Currency fluctuations may cause actual growth

rates to fall short of forecasts in management's outlook.

ISS monitors and assesses trends in interest rates on a current basis and, based on the approved policy, the Group is prepared to adjust its interest rate exposure relative to the Group's expectations of future developments in interest rates. However, there can be no assurance that the Group will not misjudge trends or for other reasons be materially, adversely affected by changes in the level of interest rates.

#### **KEY FIGURES AND CREDIT RATINGS**

Investors and other financing sources and credit rating agencies traditionally use a range of financial key figures such as operating margin, cash flow from operating activities, cash conversion, interest coverage, equity ratio and debt ratio to evaluate the Group's financial position and performance. Macroeconomic trends, changes in legislation, implementation of IT, shortage of manpower and other operational issues are factors which may cause the Group's financial key figures to fluctuate substantially. An adverse development in ISS' financial key figures and credit ratings may affect the Group's ability to finance operations, development and growth. This may have a material, adverse effect on the Group's financial development. ISS seeks to reduce this risk by regularly evaluating the Group's capital structure. It is company policy to seek to ensure an appropriate development in its financial key figures so as to enable the Group to, inter alia, uphold its credit rating and comply with the covenants specified in the Group's loan agreements. For this purpose, the Group has established a set of financial management tools that support ISS in evaluating future requirements for capital contributions by means of equity and debt. However, there can be no assurance that ISS will always be able to uphold the credit rating and comply with the minimum limits in loan agreements. Material adverse effects could stem from such breaches.

#### **IT**

The administrative part of the Group's operations is increasingly dependent on the use of IT. System failures or disruptions resulting from computer viruses, acts of hackers or other causes, may have a material, adverse effect on the Group. The Group's development plans include increased development and use of IT in all countries. This places demands on the compatibility of the Group's computer systems and software applications and on the reliability of such systems and applications. Non-compatibility between the Group's computer systems and

software applications may require additional IT investments. This may also be the case if systems reliability is unsatisfactory. These problems may, to the extent they materialise, adversely affect the Group.

The levels of required IT-related investments and future costs depend on technological opportunities, market demands, competitive actions and other factors. To protect its competitiveness, ISS may have to allocate further resources to the development of the Group's IT infrastructure and IT-related business processes. This may have an adverse effect on the Group's financial position.

ISS outsources IT as a means of ensuring effective management of IT resources and improving cost efficiency of the Group's IT infrastructure, systems and applications. ISS relies on the ability of outsourcing partners to deliver agreed services. Failure by an outsourcing partner to perform according to the contract may have an adverse impact on ISS' operation and its financial position.

### **QUALIFIED EMPLOYEES**

Employee costs make up ISS' largest single cost item, and the Group's competitive strength depends, among other factors, on its ability to attract, train and retain employees with the right qualifications and experience. The service industry in general is characterised by a relatively high staff turnover. To the extent that the Group is unable to offer satisfactory pay and working conditions, there is a risk that ISS will experience a shortage of labour and this may have an adverse effect on the Group. Such situations may also occur in a tight labour market to the effect that it may be necessary to use more temporary staff, thereby increasing the Group's staff costs. ISS is working to counter this risk partly through targeted efforts to increase employee satisfaction, and partly through an active effort to professionalise the service industry and to enhance the general standing of the industry. ISS' possible inability to attract and retain the required number of qualified employees may have a material, adverse effect on the Group's growth and earnings.

### **MANAGEMENT RESOURCES**

The ability to attract and retain managers at middle and senior level is important to ISS. ISS' possible inability to attract and retain an adequate number of qualified managers may have a material, adverse effect on the Group's ability to meet targets. The ability to retain key management resources in acquired companies is

also important in order to ensure effective integration into the Group and thus minimise the costs of integration. The resignation of key managers may have a material, adverse effect on the profitability of the relevant companies.

### **ENVIRONMENTAL ISSUES**

The environmental requirements applying to the service industry, made by legislators, customers as well as unions, are becoming ever more rigorous. ISS anticipates that an increasing number of countries will introduce environmental taxes on the use of chemicals, e.g. in the cleaning materials used by the Group. To the extent ISS is unable to pass the costs of the stricter requirements and higher taxes on to its customers, such factors may have an adverse effect on the Group.

The possible presence of pollution on properties owned or rented by ISS may also result in claims arising from cleaning of such properties, and may have an adverse impact on the Group. Likewise, the value of properties owned by ISS may decrease significantly due to pollution and thus result in financial losses.

### **WORKING ENVIRONMENT**

Having a large number of employees in many different countries and cultures involves a potential risk for the Group of being subjected to litigation relating to violations of social and working environment legislation. The effects of new services, detergents, tools, machinery etc. on the working environment or any currently unknown long-term effects of existing products or work processes may have an adverse effect on the Group. ISS seeks to reduce risks related to the working environment and the environment in general by choosing detergents, materials and equipment, which ISS considers to be environmentally friendly, and by running training programmes on personal protection for employees and by monitoring the indoor and outdoor environment. However, despite the Group's efforts, there is a risk that claims against ISS in relation to the working environment may have an adverse impact on the Group's financial position.

### **DAMAGE TO PROPERTY AND BUSINESS INTERRUPTIONS**

It is a characteristic of many service providers that employees deliver the services in buildings and at locations owned or operated by the customers. This involves a risk of claims in connection with damage to property, business

interruptions, unauthorised use of the customer's property or other tortious acts.

### **DIVESTMENT OF OPERATIONS**

In the accounts, ISS makes provisions for claims from purchasers or other parties in connection with divestments. In the opinion of management, the provisions at 31 December 2003 are adequate. However, there can be no assurance that one or more major claims arising out of the Group's divestments of companies will not adversely affect the Group.

### **RETIREMENT BENEFIT PLANS**

In certain countries, the Group has pension plans under which the Group has an obligation to provide agreed benefits to current and former employees. The Group's future liabilities under defined benefit plans may be significantly impacted by changes in the discount rate, the expected return on plan assets, the social security rate, the future salary increase, the future pension increase, changes in demographic variables or other circumstances. There can be no assurance that the Group will not be significantly, negatively impacted by adverse developments in the above factors.

### **RISK MANAGEMENT**

ISS A/S' central risk management function evaluates the Group's risks on an ongoing basis and implements initiatives aimed at reducing the scope and consequence of risks to the Group. Insurance taken out include cover in respect of liability, industrial injury, environmental issues, and personal injury. Insurance is taken out after advice from the Group's global insurance broker. The insurance programmes contain Group programmes for major and uniform risks. Local insurance is established, where this is legally required and in accordance with practice in the individual country. However, there can be no assurance that the Group will not experience major incidents of a nature for which no insurance cover is established. Furthermore, the occurrence of several events resulting in substantial claims for damages within one calendar year may have a material, adverse effect on the Group. In addition, the Group's insurance costs may increase over time in response to a potential negative development in the Group's claims statistics or due to material price increases in the insurance market in general.

Self-insurance instruments may be used as a result of the Group's policy with regard to insurance. This may affect the Group's risk profile. In general, there can be no assurance

that the Group has correctly anticipated all its risks and/or taken out sufficient insurance, or is at all able to take out adequate insurance at a reasonable price. Thus, material, adverse effects from insufficient insurance may occur.

### **EXTERNAL EVENTS**

The impact of natural disasters, major diseases, epidemics, war, terror or other external events are difficult to quantify. Thus, there can be no assurance that such factors will not have a significant adverse operational or financial impact on the Group.

### **FORWARD LOOKING STATEMENTS**

In connection with ISS' financial reports and other public announcements, ISS may express statements concerning the company's expectations with regard to growth, earnings, cash flow and other financial and non-financial performance measures. Any statement concerning the Group's future overall performance or the development of individual measures or the occurrence of expected events, whether financially, operationally or otherwise, are subject to uncertainty, and there can be no assurance that such expected developments or events will occur.

Furthermore, statements issued by ISS may be subject to journalistic interpretation and other public restatements, which may provide the company's stakeholders with information that is not consistent with the information communicated to the market by ISS itself. ISS is generally not in a position to comment, correct or deny, as the case may be, any wrong, inadequate or misleading information about the Group that may appear in the media or on Internet-based news services, chat-rooms or elsewhere. Therefore, the lack of comments, corrections and clarifications from ISS in relation to any such information cannot be interpreted as ISS confirming such information.

For information on the Group's general disclaimer concerning forward looking statements, please see the text-box "Forward looking statements" shown in connection with the Outlook section on page 10 of this report.



# *Operational Review*

## Segmental Summary

Business area	Turnover DKKm	Operating profit <sup>1)</sup> DKKm	Operating margin	Employees
Facility Services	32,585	2,042	6.3 %	236,318
Damage Control	1,818	69	3.8 %	2,417
Food Hygiene	1,075	81	7.5 %	5,377
Health Care	568	43	7.6 %	763
Innovation	128	(19)	(14.9)%	78
<b>Total operations</b>	<b>36,174</b>	<b>2,216</b>		<b>244,953</b>
Corporate		18		
<b>Group</b>	<b>36,174</b>	<b>2,234</b>	<b>6.2 %</b>	<b>244,953</b>
<b>Country</b>				
France	6,858	463	6.7 %	35,859
United Kingdom	4,545	282	6.2 %	36,207
Sweden	3,717	215	5.8 %	11,135
Denmark (incl. Iceland and Greenland)	3,595	234	6.5 %	13,148
The Netherlands	3,062	187	6.1 %	22,849
Norway	3,035	160	5.3 %	7,934
Belgium and Luxembourg	1,801	100	5.5 %	11,510
Germany	1,733	78	4.5 %	13,047
Central Europe	1,667	122	7.3 %	18,644
Finland	1,520	124	8.1 %	6,772
Switzerland	1,149	44	3.8 %	6,869
Spain	983	58	5.9 %	9,160
China and Hong Kong	388	21	5.4 %	4,322
Brazil	353	12	3.5 %	11,895
Singapore	305	18	5.9 %	3,820
Israel	287	18	6.3 %	5,842
Ireland	259	16	6.3 %	1,950
Australia	201	27	13.5 %	410
Italy	186	24	13.0 %	597
Portugal	182	12	6.8 %	2,449
Thailand	80	5	6.8 %	5,992
Japan	79	2	2.8 %	493
Malaysia	76	7	9.6 %	2,497
Indonesia	60	5	9.0 %	5,982
Argentina	24	(3)	(11.5)%	1,089
Sri Lanka	15	1	5.1 %	4,330
Brunei	14	3	24.3 %	151
Regional costs, not allocated to countries		(18)		
<b>Total operations</b>	<b>36,174</b>	<b>2,216</b>		<b>244,953</b>
Corporate		18		
<b>Group</b>	<b>36,174</b>	<b>2,234</b>	<b>6.2 %</b>	<b>244,953</b>

<sup>1)</sup> Before other income and expenses and royalty.

## Review of Business Performance

### FACILITY SERVICES

ISS offers a range of services in connection with the operation of factories, offices, hospitals, means of transportation etc. The service offering is divided into four general areas of related services: Cleaning services (including general cleaning, specialised cleaning, window cleaning and washroom services), property services (including maintenance and technical services, landscaping, ventilation services, pest control and sewage services), canteen services (including conference services), and office support services (including call centres, reception and mail room services, tropical plants and in-house services).

Turnover amounted to DKK 32,585 million (DKK 33,747 million in 2002) and the operating margin was 6.3% (5.7% in 2002). Facility Services accounted for 90% (89% in 2002) of the Group's turnover in 2003.

### DAMAGE CONTROL

By responding quickly to damages and emergencies caused by fire, water, storms, vandalism or otherwise, ISS Damage Control supports its customers in controlling, remedying, restoring and cleaning up after damage to buildings, furniture, machinery and IT equipment.

Turnover amounted to DKK 1,818 million (DKK 1,731 million in 2002) and the operating margin was 3.8% (7.3% in 2002).

### FOOD HYGIENE

ISS Food Hygiene offers services such as specialised cleaning to meet specific standards of hygiene in companies that produce or process food. In addition, the services include evaluation of risk profile, bacteriological testing and advice on food hygiene quality control systems such as HACCP (Hazard Analysis of Critical Control Points). ISS' service offering also includes a full facility services package to the food processing industry.

The Group's Business Build serving the food industry was renamed from ISS Food Services to ISS Food Hygiene at the beginning of 2003. The new name was chosen to enhance the brand value and add content to the name.

Turnover amounted to DKK 1,075 million (DKK 1,058 million in 2002) and the operating margin was 7.5% (7.4% in 2002).

### HEALTH CARE

ISS Health Care offers diagnostic competencies and medical treatment, including clinical physiology, MR scanning, X-ray and ultrasound, eye operations and fitting of hearing aids. In addition, ISS operates institutions providing treatment of abuse and psychiatric care. The services are performed in hospitals and clinics set up in rented facilities. Health Care operates in Sweden.

In 2002, ISS sold 51% of the elderly care activities, which until then were part of ISS CarePartner. ISS retained a minority stake in the elderly care activities. Following the sale, the remaining activities of ISS CarePartner were merged with ISS' health care activities in Sweden under the name ISS Health Care. The business of Health Care is based on close cooperation with the public health care sector and the City of Stockholm is the single largest customer.

Turnover amounted to DKK 568 million (DKK 1,288 million in 2002) and operating margin was 7.6% (8.4% in 2002).

### INNOVATION

ISS Innovation is the Group's vehicle for capturing business ideas both inside and outside the organisation and turning them into value. In addition, ISS Innovation supports business concept development within ISS' core business during the initial phases of development.

For more detailed information regarding Business Performance and review of Country Operations please refer to the Annual Report 2003 for ISS A/S, CVR no 10 16 16 14.



# ***Accounts***

## ***Signatures to the Accounts***

**COPENHAGEN, 11 MARCH 2004**

The Board of Directors and the Management Board have today discussed and approved the Annual Report 2003 of ISS Global A/S. The Annual Report has been prepared according to the Danish Financial Statements Act.

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent

Company's financial position at 31 December 2003 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows of the Group for the financial year 1 January - 31 December 2003.

The Annual Report is presented for approval at the annual general meeting on 30 March 2004.

### **MANAGEMENT BOARD**

Thorbjørn Graarud

Flemming Schandorff

### **BOARD OF DIRECTORS**

Karsten Poulsen  
Chairman

Henrik Andersen

Jesper Møller

Carsten Rich

Bjørn Raasteen

## **Auditors' Report**

**COPENHAGEN, 11 MARCH 2004**

### **TO THE SHAREHOLDER OF ISS GLOBAL A/S**

We have audited the Annual Report 2003 of ISS Global A/S.

The Annual Report is the responsibility of the Company's Board of Directors and Management Board. 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 Management Board, 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 31 December 2003 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows of the Group for the financial year 1 January - 31 December 2003 in accordance with the Danish Financial Statements Act.

KPMG C. Jespersen  
Statsautoriseret Revisionsinteressentskab

Finn L. Meyer  
State Authorized  
Public Accountant

Søren Thorup Sørensen  
State Authorized  
Public Accountant

## Financial Review

The financial information provided in this report has been prepared in accordance with the same accounting principles as were applied in 2002. The accounting policies are set out on pages 31-35 of this report.

### PROFIT AND LOSS ACCOUNT

**Turnover** was DKK 36,174 million against DKK 37,991 million in 2002.

Facility Services contributed 90% of Group turnover in 2003 (89% in 2002), while the Business Builds and Innovation contributed a total of 10% (11% in 2002).

Geographically, turnover amounted to DKK 16,671 million (DKK 18,250 million in 2002) in Northern Europe, DKK 17,621 million (DKK 17,794 million in 2002) in Continental Europe and DKK 1,882 million (DKK 1,947 million in 2002) in Overseas.

**Operating profit before other income and expenses and royalty** was up by 2% to DKK 2,234 million.

The combination of lower turnover and the increase in operating profit lifted the operating margin to 6.2% from 5.8% in 2002.

*Facility Services* The operating margin in Facility Services increased from 5.7% to 6.3%.

Facility Services in Northern Europe improved its margin relative to 2002 with progress in all countries of the region. In Sweden, the Facility Service performance was affected by one-off income and expenses, which improved the operating margin.

In Continental Europe, the picture in Facility Services was somewhat mixed. The focus on profitability enhancement in Belgium, the Netherlands and Spain led to sustained progress and margin increases. Margin improvements were also achieved in Austria, Croatia, Greece, Portugal and Slovakia. The overall margin performance in Continental Europe was impacted by a lower operating margin in Switzerland due to losses in the landscaping business. In France, the tough market condition and a 5.5% increase in the minimum wage, which took effect on 1 July 2003, impacted the operating margin. However, new labour market legislation, reducing social charges on low salaries, and one-off income compensated partly for the adverse effect and the

overall margin thus only decreased from 6.9% in 2002 to 6.7%. In Germany, the reduced level of activity and lower contribution margin at contract level affected operating profit in Facility Services. Facility Services incurred one-off costs related to the implementation of a JohnsonDiversey-resolution and the pan-European CSC-contract. In this connection ISS Germany received cost compensation from the Group, which had a positive net effect of approximately 1.4 percentage points on the operating margin of Facility Services in Germany.

Overseas improved its operating margin relative to 2002. The improved performance was primarily due to the turnaround of the business in Brazil. Other contributors to the improvements were Argentina, Australia, Brunei and Indonesia. Since 1 July 2003, ISS has held a controlling interest in the joint venture with the Hashmira Group in Israel. Therefore, as from that date, the operations of the joint venture are fully consolidated in the Group accounts.

*Business Builds* Damage Control was impacted by adverse weather conditions in Scandinavia, low activity in the industrial segment in Sweden and restructuring in Norway leading to one-off charges of approximately DKK 22 million. The operating margin was 3.8% compared with 7.3% in 2002. Food Hygiene developed in line with expectations, posting an increase in operating margin from 7.4% to 7.5%. The operating margin of Health Care was adversely impacted by downsizing in the Swedish public health care sector and one-off charges of DKK 29 million primarily related to a restructuring etc. On this background, Health Care recorded an operating margin of 7.6%.

**Staff costs** amounted to DKK 24,312 million, a decrease of 5% compared with 2002. Staff costs relative to turnover were 67.2% compared with 67.4% in 2002. **Cost of goods sold** was DKK 2,686 million. This was equal to 7.4% of turnover, unchanged from 2002. **Other operating expenses** amounted to DKK 6,370 million or 17.6% of turnover, down from 17.9% in 2002. The decrease reflected the ongoing rationalisation of the overhead structure.

**Other income and expenses, net**, amounted to DKK (66) million, the majority of which related to the management and structural changes in several countries. These changes included the disposal of vacant office space and merger of marketing, sales, communication and training functions in ISS Denmark and the head office of ISS A/S. The total cost of the structural changes

amounted to DKK 46 million in the fourth quarter of 2003, comprising redundancy costs of DKK 36 million and costs of DKK 10 million incurred in regard to disposal of vacated office space. The structural changes will be finalised during the first quarter of 2004.

A net charge of DKK 14 million was incurred primarily in regard to earlier divestment and termination decisions to cover costs associated with the transfer of employees, transfer/closure of lease contracts and other exit costs.

**Income from associates** of DKK 7 million reflected ISS' share of the results in associated companies, e.g. Carepartner Sverige AB, Fernley Airport Services Ltd. and Grødegaard AS.

**Financial income and expenses, net** improved to DKK (306) million from DKK (410) million in 2002. The improvement was due to a combination of a lower level of interest rates and lower debt. The Group realised a currency exchange loss of DKK 6 million compared with a gain of DKK 1 million in 2002.

**Interest coverage** improved to 9.2 compared with 6.8 in 2002.

**Ordinary profit before tax and goodwill amortisation** was DKK 1,460 million compared with DKK 1,162 million in 2002, positively impacted by a decrease in royalty payments to ISS A/S of 0.3 percentage point relative to turnover.

**Tax on ordinary profit before goodwill amortisation** was DKK 514 million. The effective tax rate increased to 35.2% from 31.5% in 2002.

**Ordinary profit before goodwill amortisation** was up by 23%, from DKK 796 million in 2002 to DKK 976 million in 2003.

**Goodwill amortisation** was DKK 894 million against DKK 890 million in 2002. Goodwill amortisation included a write-down of goodwill related to discontinued business of DKK 11 million and accelerated amortisation of goodwill in Germany.

**Net profit for the year** was DKK 53 million against DKK (73) million in 2002.

## CASH FLOW STATEMENT

**Changes in working capital** amounted to a cash inflow of DKK 266 million. This was mainly driven by debtors, which thereby sustained the improvement seen in 2002.

In 2003, the Group ran several projects aiming at optimising working capital with particular emphasis on outstanding debtors. The aim was to develop faster and more effective processes to handle all elements of the customer relationship from the moment of the initial contact until the customer's payment is registered in the Group's bank account.

These efforts have resulted in improved internal paper-flows, enhanced use of information technology and revised procedures for follow-up on outstanding debtors in a number of countries. These results were reflected in the number of debtor days, which, at Group level, decreased by 2 days.

**Cash flow from operating activities** was DKK 1,898 million compared with DKK 1,875 million in 2002.

**Investments in intangible and tangible assets, net** amounted to DKK 413 million, a 17% reduction from DKK 495 million in 2002. Relative to turnover, investments in intangible and tangible assets, net amounted to 1.1% while depreciation amounted to 1.6%.

The **Free cash flow** increased 8% to DKK 1,485 million from DKK 1,380 million in 2002. The free cash flow is defined as Cash flow from operating activities less Investments in intangible and tangible assets, net.

In 2003, **cash conversion** was 152%. Cash conversion is defined as Free cash flow divided by Ordinary profit before goodwill amortisation.

**Acquisition of businesses, net** amounted to a cash outflow of DKK 1,065 million. The largest acquisitions were the landscaping companies Waterers Landscape in the UK and Drielanden Groep in the Netherlands.

## BALANCE SHEET

**Total assets** amounted to DKK 21,485 million as at 31 December 2003 compared with DKK 21,738 million at the end of 2002.

The Group's **goodwill** relates to several hundred acquisitions carried out in recent years under varying circumstances and at different stages of macroeconomic cycles. The goodwill is distributed among most of the 38 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. At 31 December 2003, the goodwill stood at DKK 12,465 million, a decrease of DKK 204 million, being the net effect of goodwill amortisation of DKK 894 million and addition of new goodwill of DKK 813 million and other adjustments, primarily related to currency, of DKK (123) million. Capitalised goodwill is subject to impairment tests on a quarterly basis. The impairment tests comprise an evaluation of the units' contribution to the Group's future cash flows resulting from local and cross-border service contracts. Goodwill is written down if the carrying value exceeds the higher of estimated net selling price and estimated value in use. The impairment tests as at 31 December 2003 did not result in write-downs apart from a write-down related to discontinued businesses.

**Investments in associates** amounted to DKK 67 million as at 31 December 2003, primarily comprising the investments in CarePartner Sverige AB, Fernley Airport Services Ltd. and the catering company Grødeggaard AS.

**Shareholders' equity** decreased by DKK 40 million to DKK 5,978 million at 31 December 2003. Currency adjustments, relating to investments in foreign subsidiaries net of hedges, reduced equity by DKK 99 million as at 31 December 2003. The decrease comprised a negative foreign exchange adjustment of DKK 161 million on investments in foreign subsidiaries and a gain related to hedge position of DKK 62 million, net of tax.

**The equity ratio**, defined as shareholders' equity relative to total assets, was 27.8%, largely unchanged from 2002.

**Pensions and similar obligations** amounted to DKK 253 million against DKK 216 million in 2002. The majority of the Group's pension plans are defined contribution plans. ISS' contributions to such plans are accrued and expensed on an ongoing basis.

In certain countries, mainly in the Netherlands, Norway, Sweden and the UK, ISS has defined benefit plans. ISS uses the accounting principle known as the corridor approach in the recognition of actuarial gains and losses to ensure that random, positive as well as negative, changes in the obligations and plan assets are levelled out over a number of years. This implies that any actuarial gain or loss of each individual plan exceeding 10% of the higher of plan assets and the present value of the obligation at the beginning of the year is amortised on a straight

line basis over the expected average remaining working lives of the employees comprised by the schemes. ISS' time horizon in this respect is between 9 and 16 years due to differences in the individual pension schemes.

The net liability for the defined benefit plans amounted to DKK 225 million at 31 December 2003, an increase from DKK 189 million in 2002. DKK 17 million of the increase was attributable to a reclassification of provisions related to a pension plan in Austria, which were previously included under Other provisions.

Pension costs related to defined benefit plans amounted to DKK 80 million in 2003, a decrease of DKK 5 million compared with 2002.

Based on the current discount rates ranging between 2.5% and 5.5%, pension costs are expected to amount to approximately DKK 98 million in 2004. A simultaneous change in the discount rates of 0.25 percentage point is estimated to increase or decrease, as the case may be, the costs in 2004 to approximately DKK 105 million or approximately DKK 87 million, all other things being equal. For detailed information of pension obligations, please refer to note 25 to the Financial Statements.

**Other provisions** were DKK 529 million as at 31 December 2003. Provisions related to acquired companies amounted to DKK 61 million, a decrease of DKK 16 million compared with 2002. The remaining provisions comprise various obligations incurred in the ordinary course of business, e.g. labour related obligations, legal obligations, contract closures etc.

**Net interest-bearing debt** was DKK 6,806 million against DKK 7,244 million in 2002.

## FUNDING AND FINANCIAL RISK MANAGEMENT

The primary aim of the Group's funding strategy is to ensure sufficient financial flexibility to support the strategy outlined in **create2005**. Therefore, it is important to have access to multiple sources of financing and long-term commitments on the Group's borrowing facilities.

The Group's financial risk management is centralised, based on policies approved by the Board of Directors of ISS A/S that specifies guidelines and risk limits for the Group's financial transactions and positions.

**Funding** The Group's funding was changed in the autumn of 2003 when the Company listed a

Euro Medium Term Note (EMTN) programme and subsequently launched its inaugural bond issue of EUR 850 million. The proceeds were used to repay the majority of the Group's existing bank loans. After the bond issue, the Group's funding comprises a mix of corporate bonds and bank financing. The outstanding bond issue has a coupon of 4.75% (equal to a spread of 0.68% to the EURO midswap rate at the time of issue) and expires in 2010. Concurrently with issuing of the bonds, The Company entered into an interest rate swap under which the Company receives a fixed rate and pays a floating rate. Hence, the net effect for the Company is a floating rate funding structure.

The Group's bank facilities are primarily established with its core banks, currently comprising 12 international banks. The borrowing facilities are established with individual bilateral agreements based on ISS' standard documentation. The Group aims at renegotiating and extending the loan agreements on an annual basis in order to ensure sufficient borrowing capacity and a continuing long-term commitment on the funding, thereby reducing the refinancing risk. After the launch of the bond issue, certain bank facilities were reduced in size but extended in terms of commitment period.

At 31 December 2003, ISS had total long-term credit facilities of DKK 14.2 billion including the bond issue, of which DKK 6.4 billion had been drawn. The comparative figures for 2002 were DKK 11.1 billion and DKK 5.5 billion, respectively. The average commitment period for the long-term facilities was 5.1 years, up from 3.2 years in 2002.

**Financing structure** The majority of the Group's external borrowing is centralised with the Company, which functions as an intra-group bank for the operating companies. According to the Group's internal treasury policies, operating companies place surplus cash with the Company in order to ensure central management of the Group's liquid funds. Surplus cash is primarily invested in bonds and bank deposits.

To ensure that surplus cash and debt are netted at country level, country-based cash pools with overdraft facilities are established in countries where the Group has more than one operating company.

**Credit rating** The Company is rated BBB+ with Stable Outlook from Standard & Poor's. The bond issue has the same rating.

**Capital planning** The Group's capital planning aims at reducing the cost of capital subject to maintaining financial flexibility. To ensure the right mix of equity and debt in the medium term, ISS prepares rolling multi-year plans, which take into account the use and generation of capital under different strategic growth scenarios.

The Group evaluates its financial position and credit-worthiness on an ongoing basis using various financial planning and credit rating models. A key purpose is to ensure that the credit rating supports the Group's growth ambitions. The planning models incorporate a number of variables, including acquisitions, operating margins, organic growth, working capital levels, dividend policy etc.

In the assessment of the credit worthiness, off-balance sheet liabilities are taken into account in accordance with principles used by credit rating agencies. These are primarily contingent liabilities relating to operational leasing or renting of cars and buildings. At the end of 2003, such contingent liabilities amounted to DKK 2,595 million compared with DKK 2,381 million in 2002.

There are no separate financial targets for the Company. The capital planning is assessed together with ISS A/S. For further information please refer to Annual Report 2003 for ISS A/S, CVR no 10 16 16 14.

**Financial risk management** The Group's financial risk management is based on policies approved by the Board of Directors of ISS A/S, specifying guidelines and risk limits for the Group's financial transactions and positions. ISS may use derivatives to hedge financial risks and may invest surplus cash in securities. Hedging of financial risks is managed at corporate level.

**Interest rate risk** The Group's loan portfolio primarily consists of bonds issued under the EMTN-programme. The bond issue has been swapped into floating rate. To manage the duration on the net debt, ISS uses derivatives, such as interest rate swaps, futures and options. ISS has hedged the interest rate on a part of the loan portfolio for 2004 by using interest rate swaps. The deferred gain or loss on the interest rate instruments will in accordance with the matching principle be charged to the profit and loss account as a financial item at the time when the hedged interest expense is recognised in the profit and loss account. Please refer to note 27 to the Financial Statements for further information.

**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 from such events.

The service industry is characterised 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.

The main currency exposure relates to the risk involved in translating the profit and loss accounts of foreign subsidiaries into Danish kroner based on average exchange rates for the year and in relation to the risk of translating the equity investment 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 2003, the currencies in which the Group's turnover was denominated depreciated by an average of 3% relative to Danish kroner, reducing the Group's turnover by DKK 1,009 million. The effect of the translation of investments in foreign subsidiaries, including the effect of hedge transactions, net of tax, reduced equity by DKK 99 million.

**Credit risk** represents the risk of the accounting loss that would be recognised if counterparties failed to perform as contracted. Losses on bad debt relating to individual customers or counterparties have historically been relatively low. To reduce the credit risk exposure, ongoing credit evaluations of the financial condition of the Group's counterparties are performed.

## International Financial Reporting Standards

In accordance with European regulation, ISS will prepare its consolidated financial statements for 2005 in accordance with International Financial Reporting Standards (IFRS).

In its consolidated financial statements for 2004, ISS expects to apply accounting policies that are consistent with the policies applied in the consolidated financial statements for 2003.

The consolidated full-year financial statements for 2005 will comply with IFRS and include a restatement of comparative figures for 2004.

ISS' consolidated financial statements will be impacted in two steps, initially at the IFRS opening balance date 1 January 2004 (see "IFRS 1 First Time Application" below) and secondly when applying the IFRS standards (see "IFRS convergence process" below).

The expected accounting implications of implementing IFRS are described below. It should be emphasised that the implications are based on a preliminary evaluation, and the actual accounting consequences resulting from the IFRS implementation in 2005 may differ from present expectations.

### IFRS 1 FIRST TIME APPLICATION

The effect of ISS' transition to IFRS in 2005 is determined by the provisions set out in IFRS 1 *First Time Application*, which contains transitional rules for companies adopting IFRS for the first time.

The Group has not completed its quantification of the differences discussed below.

**Business Combinations** In accordance with IFRS 1, ISS has the option to recognise the existing carrying amount of assets and liabilities for business combinations made prior to 1 January 2004.

If IAS 22 *Business Combinations* was applied without using the exemption provided by IFRS 1, goodwill related to certain acquisitions made prior to 1 January 2002 should be reassessed. In accordance with Danish Accounting legislation prevailing at the time, ISS included integration costs in both the acquired and the acquiring company in the calculation of goodwill arising on acquisitions. A recalculation of goodwill in

accordance with IAS 22 would not have included integration costs in the acquiring company. As a result, the carrying value of goodwill and equity would be affected.

**Employee Benefits** ISS' accounting for defined benefit plans is inspired by IAS 19 *Employee Benefits*. This includes the use of the corridor method for unrecognised actuarial gains and losses. In regard to defined benefit plans, ISS had unrecognised actuarial losses amounting to DKK 307 million as at 31 December 2003.

In accordance with IFRS 1, any unrecognised actuarial gains and losses, as calculated at the IFRS conversion in 2005, will be included in equity in the IFRS opening balance as at 1 January 2004.

If IAS 19 *Employee Benefits* had been applied without using the exemption provided by IFRS 1, any unrecognised actuarial gain or loss on each individual plan exceeding 10% of the higher of plan assets and plan liabilities at the beginning of the year, should have been recognised in the profit and loss account over the expected average remaining working lives of the employees.

### Cumulative currency translation differences

In accordance with IFRS 1, ISS will neutralise cumulative currency translation differences related to foreign subsidiaries in the opening balance on 1 January 2004.

This means that only currency translation differences arising after 1 January 2004 will be included in the calculation of gains and losses arising from any future divestment of foreign subsidiaries.

If IAS 21 *Effects of Changes in Foreign Exchange Rates* had been applied without using the exemptions provided by IFRS 1, the cumulative currency translation difference arisen both prior to and after 1 January 2004 should be included in the calculation of gains and losses arising from any divestment of foreign subsidiaries.

### IFRS CONVERGENCE PROCESS

The 2003 financial statements have been prepared in accordance with the accounting policies described on pages 31-35 of this report. The differences between these current accounting policies and IFRS identified to date as potentially having a significant impact on the consolidated financial statements are summarized below. The summary should not be taken as an exhaustive list of all the differences

between ISS' accounting policies and IFRS that could have a significant impact upon the consolidated financial statements since no attempt has been made to identify all differences that would affect the manner in which transactions or events are presented.

The body that establishes IFRS (IASB) has ongoing projects that could affect the differences between ISS' accounting policies and IFRS described below. The actual impact on the consolidated financial statements of the adoption of IFRS will depend on the standards applicable and the particular circumstances prevailing on adoption of IFRS in 2005. The Group has not completed its quantification of the differences discussed below. ISS is awaiting the final wording of the standards concerning ED 3 *Business Combinations* (including expected changes to IAS 36 *Impairment of Assets*, and IAS 38 *Intangible Assets*) as well as ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations*. Furthermore, the impact of an IFRS improvement project, comprising 13 standards and the expected revision of IAS 39 *Financial Instruments* is subject to further analysis by the Group.

**ED 3 Business Combinations** ED 3 stipulates that goodwill resulting from business combinations should not be amortised in the profit and loss account. In 2003, ISS amortised goodwill amounting to DKK 883 million in the profit and loss account (excluding write-down in regard to discontinued activities). Thus, the implementation of ED 3 will impact ISS' consolidated financial statements. In particular, goodwill amortisation and the carrying value of goodwill and equity will be affected.

According to IAS 36 *Impairment of Assets*, goodwill impairment tests must be made at the lowest level of cash generating units to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis.

It is ISS' strategy to integrate acquired companies as quickly as possible 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 its geographical or business area normally affect 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.

On this background, ISS believes that the lowest level of cash generating units to which the carrying amount of goodwill can be allocated in the ISS Group is the Facility Services segment per country or Business Build per country. Quarterly impairment tests of goodwill are currently being conducted at these levels.

#### **IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries**

IAS 27 and SIC 12 from the Standing Interpretations Committee under IASB implies that certain of ISS' associates might have to be consolidated as ISS under IFRS is considered to control the associates if ISS holds the majority of risks and rewards. This will impact consolidated turnover and operating profit but not net profit for the year.

**IAS 39 Financial Instruments** The strict hedging requirement in IAS 39 *Financial Instruments* may imply that the current use of hedging derivatives does not qualify for cash flow hedge accounting. If so, value adjustment must be recognised in the profit and loss account at the balance sheet date and not at the same time as the hedged item. The deferred loss on hedging derivatives amounted to DKK 29 million as at 31 December 2003.

## Accounting Policies

### BASIS OF PREPARATION

The Annual Report has been prepared in accordance with the provisions of the Danish Financial Statements Act, Reporting Class C, large enterprises. The accounting policies are consistent with last year.

### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include ISS Global A/S (“the Company”) and all subsidiaries (together with the Company referred to as “the Group”) in which the Company, 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 the Company and the individual subsidiaries by adding items of a similar nature. Intra-group income and expenses, shareholdings, dividends and balances as well as realised and unrealised gains and losses on intra-group transactions are eliminated.

Minority interests' proportionate share of profit and equity in subsidiaries is recognised separately in the profit and loss account and balance sheet.

**Investments in associates** Enterprises, which are not regarded as subsidiaries, but in which the Group holds investments and exercises a significant, but not a controlling influence, are regarded as associates. The proportionate share of the associate's result is recognised in the profit and loss account under the equity method. A proportionate share of transactions with the Group is eliminated, including realised and unrealised gains and losses.

**Joint ventures** The Group's interests in jointly controlled entities are regarded as joint ventures and recognised in the consolidated financial statements by including the Group's proportionate share of the operation's assets, liabilities, income and expenses on a line-by line basis with items of a similar nature. The proportionate share of transactions with the Group, including realised and unrealised gains and losses, is eliminated.

### Acquisition and divestment of businesses

Acquired enterprises are included in the consolidated financial statements as from the date of acquisition. Enterprises that are divested

or wound up are included until the date of divestment.

Acquisitions are treated in accordance with the purchase method, under which identifiable assets and liabilities of acquired enterprises are recognised in the balance sheet at fair value at the date of acquisition. Provisions are recognised for obligations concerning planned restructuring in the acquired enterprise arising at the date of acquisition as a direct consequence of the acquisition, including severance payments and expenses related to the closing down of branches and offices. Any tax impact related to revaluations and provisions regarding restructuring is taken into account.

Any excess cost of acquisition over the fair value of net assets acquired is capitalised as goodwill and amortised in the profit and loss account over the expected useful economic life with a maximum of 20 years.

The carrying amount of goodwill is evaluated on an ongoing basis and written down to the recoverable amount in the profit and loss account if the carrying amount exceeds the higher of net selling price and value in use (the present value of expected future cash flows) from the entity to which the goodwill belongs.

Where the fair value of acquired net assets subsequently proves to differ from the value computed at the date of acquisition, the initial recognised goodwill amount is adjusted until the end of the financial year following the year of acquisition.

Changes in the purchase price after the acquisition as well as reversal of restructuring provisions made at the date of acquisition are accounted for as adjustment to goodwill.

Gains or losses on divestment or winding up of subsidiaries or associates are measured as the difference between the sales or winding up sum adjusted for directly related sales or winding up costs and the carrying amount of the net assets at the time of the disposal or winding up (including any unamortised goodwill). Any accumulated foreign exchange rate adjustments previously recognised in equity are included in the profit and loss account, under Financial income and expenses, net.

**Foreign currency** Transactions in foreign currency are translated into Danish kroner at the exchange rate ruling at the date of transaction. Assets and liabilities in foreign currency are

translated into Danish kroner at the exchange rate ruling at the balance sheet date.

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

Goodwill arising on the acquisition of foreign subsidiaries/joint ventures is treated as an asset belonging to the foreign subsidiaries/joint ventures and translated into Danish kroner at the exchange rates ruling at the balance sheet date.

Realised and unrealised exchange gains and losses are included in the profit and loss account under Financial income and expenses, net 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 prevailing at the balance sheet date,
- the profit and loss accounts of foreign subsidiaries/joint ventures and income from investments in associates from average exchange rates to exchange rates prevailing at the balance sheet date,
- long-term inter-company balances which are considered as an addition to the net assets of subsidiaries/joint ventures, and
- loans in foreign currency and derivatives hedging net investments in foreign subsidiaries/joint ventures.

Realised and unrealised exchange gains and losses related to the translation of the above four groups of transactions are taken directly to equity. Any related tax impact is taken into account.

## PROFIT AND LOSS ACCOUNT

**Turnover** comprises the value of services provided during the year less VAT and duties as well as price and quantity discounts. Contract work in progress is recognised using the percentage-of-completion method based on the value of work completed at the balance sheet date.

**Operating expenses** **Staff costs** comprises salaries and wages, pensions, social security expenses and other employee related expenses. **Cost of goods sold** comprises material consumption related to the recorded turnover. **Other operating expenses** includes expenses related to the operation of service equipment and

other fixed assets, external assistance as well as other selling, distribution and administrative expenses, including expenses related to marketing, transportation, rental, operating leases, subcontractors, audit, legal assistance, losses and loss provisions on accounts receivable etc.

**Other income and expenses, net** comprises items which do not form part of the Group's normal ordinary operations, including gains/losses and costs related to divestment or winding up of subsidiaries, joint ventures and associates and gains/losses arising from disposal of properties.

**Royalty** comprises payments to the Company's parent company, ISS A/S.

**Income from associates** comprises the share of profit on ordinary operations before tax in associates after proportionate elimination of intra-group profit and loss. The Group's share of tax in associates is recognised under Tax on ordinary profit before goodwill amortisation.

**Financial income and expenses, net** comprises interest, realised and unrealised gains and losses regarding foreign currency, securities and certain derivatives. Furthermore, interest on certain insurance and pension provisions as well as commitment fees are included under financial expenses. Financial income and expenses for the year are included in the profit and loss account irrespective of payment dates.

**Tax on ordinary profit** consists of income tax and changes in deferred tax. Deferred tax is recognised based on the balance sheet liability method and comprises all temporary differences between accounting and tax values of assets and liabilities.

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, respectively.

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 recognised 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 recognised income tax is allocated to Tax on ordinary profit before goodwill amortisation, Tax effect of goodwill amortisation and Equity, as applicable.

The Company is jointly taxed with ISS A/S and with a number of wholly owned Danish and foreign subsidiaries. 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 recognised under Financial income and expenses, net.

### CASH FLOW STATEMENT

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

The cash flow statement is prepared using the indirect method based on Operating profit before other income and expenses and royalty.

The liquidity effect of acquisitions and divestments of businesses, including related restructuring costs (see "Acquisition and divestment of businesses" above), is shown separately under Cash flow from investing activities. The cash flow statement includes cash flows from acquired enterprises from the date of acquisition and cash flows from divested enterprises until the date of divestment.

**Cash flow from operating activities** comprises Operation profit before other income and expenses and royalty adjusted for non-cash items and changes in working capital and payments regarding provisions, interest, corporation tax, other income and expenses and royalty. Working capital consists of current assets less current liabilities excluding liquid funds, securities (highly liquid), bank loans, interest receivable/ payable and tax receivable/payable.

**Cash flow from investing activities** comprises cash flow from acquisition and divestment of businesses as well as purchase and sale of fixed assets.

**Cash flow from financing activities** comprises the proceeds from and the repayment of loans, dividends, proceeds from share issues, cash flow related to derivatives hedging net investments and dividends to minorities.

**Cash and cash equivalents** comprises cash and highly liquid securities, which are held as part of the Group's current cash management.

### BALANCE SHEET

**Intangible and tangible assets** are measured at cost less accumulated amortisation, depreciation, impairment loss and write-down. Cost of intangible and tangible assets includes cost price as well as costs directly associated with the purchase until the asset is ready to be brought into use.

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 phase are capitalised. Other development costs for which it cannot be rendered probable that future economic benefit will flow to the Group are recognised in the profit and loss account as and when incurred.

Amortisation and depreciation is provided at rates to write off the cost less estimated residual value on a straight-line basis over the following periods:

Goodwill . . . . .	maximum of 20 years
Software . . . . .	maximum of 5 years
Buildings . . . . .	20-40 years
Leasehold improvements . . . . .	over the lease term
Vehicles, fixtures, service and IT equipment . . . . .	3-10 years

Short-life assets and less valuable assets are charged to the profit and loss account in the year of purchase. Gains and losses arising on the disposal or retirement of fixed assets are measured as the difference between the sales price less direct sales costs and the net carrying amount, and are recognised in the profit and loss account under Other operating expenses in the year of sale, except gains and losses arising on disposals of properties, which are recognised under Other income and expenses, net.

Assets held under finance leases are 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 approximately rate is applied as the discount rate. Assets held under finance leases are depreciated in accordance with the policy for fixed assets acquired by the Group.

**Financial assets** Investments in subsidiaries and associates are measured in accordance with the equity method. Subsidiaries and associates

with a negative net asset value are stated at zero, and amounts owed to the Company by such enterprises are written down by the Company'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 recognised under provisions to the extent the Company 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 recognised in the profit and loss account when incurred. If the Group is awarded status as preferred bidder, directly attributable costs and investments, if any, are recognised in Other securities and investments. For PPP/PFI contracts awarded, the costs are amortised over the term of contract. If the Group is not awarded the contract, all costs are recognised in the profit and loss account.

Other securities and investments are measured at fair value at the balance sheet date. Other securities and investments includes shares in ISS A/S.

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

**Accounts receivable** are measured at amortised cost less a provision for doubtful debts based on an individual assessment. Provisions and realised losses during the year are recognised in the profit and loss account under Other operating expenses.

**Contract work in progress** for the account of third parties 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. On account invoices related to the completed proportion of work to be performed are deducted from the recognised value, while on account invoices exceeding the completed proportion of work to be performed are recognised as Prepayments from customers under Current liabilities.

**Securities** include highly liquid securities, which are used in the Group's current cash management. These securities are measured at fair value at the balance sheet date.

**Provisions** comprise expected obligations related to employee retirement plans and restructurings of acquired businesses etc. The provisions are recognised when the Group 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.

Employee retirement plans and similar obligations as well as contributions to defined contribution plans are recognised in the profit and loss account as incurred. Any difference between the charge to the profit and loss account and the contribution payable is included in the balance sheet under Other payables and accrued expenses.

For defined benefit plans, the amount recognised in the balance sheet under Pension and similar obligations is determined as the present value of the defined benefit obligation adjusted for unrecognised actuarial and transition gains and losses and less any past service costs not yet recognised. The present value of the defined benefit obligation and the related service costs are based on actuarial calculations.

**Financial liabilities** Debt to financial institutions etc. is initially measured at the value of the proceeds received less related transaction costs. Subsequently, financial liabilities are measured at amortised cost, equal to the capitalised value when applying a constant effective rate of interest, and the difference between the proceeds initially received and the nominal value is recognised in the profit and loss account over the loan period. Lease commitments on finance leases are capitalised and recognised under financial liabilities at the lower of fair value of the leased asset and the present value of future lease payments.

**Derivatives** are measured at fair value and recognised in Prepayments and accrued income or Other payables and accrued expenses. Gains/losses are recognised as Financial income and expenses, net except for derivatives designated as hedges.

Changes in the fair value of derivatives hedging the fair value of recognised assets and liabilities are recognised in the profit and loss account together with changes in the value of the hedged

asset or hedged liability. Derivatives that qualify as net investment hedges in subsidiaries, joint ventures and associates are recognised directly in equity, net of tax.

Changes in the fair value of derivatives hedging future transactions are recognised directly in equity, net of tax. On realisation of the hedged item, value changes recognised under equity are reversed and recognised together with the hedged item.

For derivatives which do not comply with the hedge accounting conditions changes in fair value are recognised in the profit and loss account on a regular basis.

**Operating leases** Operating lease costs are recognised in the profit and loss account on a straight-line basis over the term of the lease. The obligation for the remaining lease period is disclosed in the notes to the financial statements under Contingent liabilities.

**Segment information** Information is provided by business segments (Primary segments) and geographical segments (Secondary segments). Segment information follows the Group's accounting policies and internal financial management.

## Profit and Loss Account

1 January – 31 December. Amounts in DKKm

Note	Group		Parent company		
	2003	2002	2003	2002	
1	<b>Turnover</b>	<b>36,174</b>	<b>37,991</b>	-	-
2	Staff costs	(24,312)	(25,597)	-	-
	Cost of goods sold	(2,686)	(2,825)	-	-
	Other operating expenses	(6,370)	(6,794)	0	(1)
13, 14	Depreciation and amortisation	(572)	(588)	-	-
1	<b>Operating profit before other income and expenses and royalty</b>	<b>2,234</b>	<b>2,187</b>	<b>0</b>	<b>(1)</b>
3	Other income and expenses, net	(66)	(70)	-	-
4	Royalty	(409)	(534)	0	1
	<b>Operating profit</b>	<b>1,759</b>	<b>1,583</b>	<b>0</b>	<b>0</b>
	Income from subsidiaries	-	-	566	315
	Income from joint ventures	-	-	(1)	8
15	Income from associates	7	(11)	-	-
5	Financial income and expenses, net	(306)	(410)	(29)	(69)
	<b>Ordinary profit before tax and goodwill amortisation</b>	<b>1,460</b>	<b>1,162</b>	<b>536</b>	<b>254</b>
6	Tax on ordinary profit before goodwill amortisation	(514)	(366)	(483)	(327)
	<b>Ordinary profit before goodwill amortisation</b>	<b>946</b>	<b>796</b>	<b>53</b>	<b>(73)</b>
7, 13	Goodwill amortisation	(894)	(890)	-	-
6	Tax effect of goodwill amortisation	31	39	-	-
21	Minority interests	(30)	(18)	-	-
	<b>Net profit for the year</b>	<b>53</b>	<b>(73)</b>	<b>53</b>	<b>(73)</b>
	Proposed appropriation of net profit:				
	<b>Retained earnings</b>			<b>53</b>	<b>(73)</b>

## Statement of Cash Flows of the Group

1 January – 31 December. Amounts in DKKm

	2003	2002	Note
Operating profit before other income and expenses and royalty	2,234	2,187	
Depreciation and amortisation	572	588	13, 14
Changes in working capital	266	415	8
Changes in provisions	(36)	(96)	
Interest paid, net	(302)	(417)	
Corporation tax paid	(406)	(223)	6
Payments related to other income and expenses	(21)	(45)	
Payments related to royalty	(409)	(534)	
<b>Cash flow from operating activities</b>	<b>1,898</b>	<b>1,875</b>	
Acquisition of businesses	(1,065)	(1,898)	10
Divestment of businesses	20	16	10
Investments in intangible and tangible assets, net	(413)	(495)	11
Investments in financial assets, net	31	(31)	11
<b>Cash flow from investing activities</b>	<b>(1,427)</b>	<b>(2,408)</b>	
Financial payments, net <sup>1)</sup>	565	(787)	9
Financial payments related to affiliated companies, net	(924)	795	
Proceeds from issuance of share capital	-	500	
Minority interests	(8)	(5)	21
<b>Cash flow from financing activities</b>	<b>(367)</b>	<b>503</b>	
<b>Total cash flow</b>	<b>104</b>	<b>(30)</b>	
Cash and cash equivalents at beginning of year	275	340	
Total cash flow	104	(30)	
Foreign exchange adjustments	(9)	(35)	
<b>Cash and cash equivalents at end of year</b>	<b>370</b>	<b>275</b>	12

<sup>1)</sup> Proceeds from bank debt and issue of bonds less repayment of bank debt.

## Balance Sheet

At 31 December. Amounts in DKKm

Note	Assets	Group		Parent company	
		2003	2002	2003	2002
	Goodwill	12,465	12,669	-	-
	Software and other intangible assets	143	144	-	-
<b>13</b>	<b>Total intangible assets</b>	<b>12,608</b>	<b>12,813</b>	<b>-</b>	<b>-</b>
	Land and buildings	156	168	-	-
	Vehicles, fixtures, service and IT equipment	1,292	1,325	-	-
<b>14</b>	<b>Total tangible assets</b>	<b>1,448</b>	<b>1,493</b>	<b>-</b>	<b>-</b>
15	Investments in subsidiaries	-	-	8,507	7,447
15	Investments in joint ventures	-	-	66	135
15	Investments in associates	67	35	-	-
15, 24	Receivables from associates	23	25	23	25
15	Receivables from affiliated companies	-	-	1,046	1,726
15	Other securities and investments	74	79	39	34
15, 24	Other receivables	138	156	-	-
16	Deferred tax assets	327	360	0	5
	<b>Total financial assets</b>	<b>629</b>	<b>655</b>	<b>9,681</b>	<b>9,372</b>
	<b>Total fixed assets</b>	<b>14,685</b>	<b>14,961</b>	<b>9,681</b>	<b>9,372</b>
17	Inventories	178	170	-	-
24	Accounts receivable	5,420	5,517	-	-
18	Contract work in progress	102	113	-	-
24	Other receivables	319	210	-	-
	Receivables from affiliated companies	3	2	3,570	4,319
19	Prepayments and accrued income	347	377	9	26
	Corporation tax	61	113	-	-
12, 24	Securities	12	14	-	-
12, 24	Liquid funds	358	261	38	-
	<b>Total current assets</b>	<b>6,800</b>	<b>6,777</b>	<b>3,617</b>	<b>4,345</b>
	<b>Total assets</b>	<b>21,485</b>	<b>21,738</b>	<b>13,298</b>	<b>13,717</b>

## Balance Sheet

<b>Equity and liabilities</b>	Group		Parent company		Note
	2003	2002	2003	2002	
Share capital	150	150	150	150	20
Reserves	5,828	5,868	5,828	5,868	
<b>Total equity</b>	<b>5,978</b>	<b>6,018</b>	<b>5,978</b>	<b>6,018</b>	
<b>Minority interests</b>	<b>108</b>	<b>88</b>	-	-	21
Pensions and similar obligations	253	216	-	-	25
Deferred tax liabilities	123	113	-	-	16
Other provisions	529	572	1	2	22
<b>Total provisions</b>	<b>905</b>	<b>901</b>	<b>1</b>	<b>2</b>	
<b>Long-term debt</b>	<b>6,446</b>	<b>5,642</b>	<b>6,347</b>	<b>5,543</b>	23, 24
Current portion of long-term debt	5	1	-	-	23, 24
Interest-bearing loans and borrowings	614	841	1	42	24
Prepayments from customers	126	103	-	-	
Trade creditors	1,341	1,280	0	-	24
Amounts owed to affiliated companies	114	1,037	920	2,047	
Corporation tax	153	155	3	11	
Tax withholdings, VAT etc.	1,955	1,979	-	-	
Accrued wages and holiday allowances	2,445	2,504	-	-	
Other payables and accrued expenses	1,295	1,189	48	54	
<b>Total current liabilities</b>	<b>8,048</b>	<b>9,089</b>	<b>972</b>	<b>2,154</b>	
<b>Total long-term debt and current liabilities</b>	<b>14,494</b>	<b>14,731</b>	<b>7,319</b>	<b>7,697</b>	
<b>Total equity and liabilities</b>	<b>21,485</b>	<b>21,738</b>	<b>13,298</b>	<b>13,717</b>	
<hr/>					
Contingent liabilities					26
Derivatives					27
Related party transactions					28
Interests in joint ventures					29
Fees to auditors					30

## Statement of Equity

At 31 December. Amounts in DKKm

Note	Equity	Share capital	Share premium	Retained earnings	Total equity
<b>2002</b>					
	Equity at 1 January 2002	145	248	5,298	5,691
	Transfer	-	(743)	743	-
	Foreign exchange adj. of subsidiaries <sup>1)</sup>	-	-	(106)	(106)
	Deferred gains on hedging derivatives	-	-	6	6
20	Increase of share capital	5	495	-	500
	Net profit for the year	-	-	(73)	(73)
	<b>Equity at 31 December 2002</b>	<b>150</b>	<b>-</b>	<b>5,868</b>	<b>6,018</b>
<b>2003</b>					
	Equity at 1 January 2003	150	-	5,868	6,018
	Foreign exchange adj. of subsidiaries <sup>1)</sup>	-	-	(99)	(99)
	Deferred gains on hedging derivatives	-	-	6	6
	Net profit for the year	-	-	53	53
	<b>Equity at 31 December 2003</b>	<b>150</b>	<b>-</b>	<b>5,828</b>	<b>5,978</b>

<sup>1)</sup> Net of hedges.

# Notes to the Financial Statements

Amounts in DKKm

## 1. Segment information

The business segments of the Group reflect the operating model in **create2005** and consist of Facility Services and the Business Builds: Damage Control, Food Hygiene, Health Care and Innovation (Primary segment).

Compared to 2002, the following reclassifications between Facility Services and Business Builds have been made: 1 January 2003, Aviation was discontinued as a separate Business Build following the discontinuation of airside activities. The remaining activities were transferred to Facility Services. Furthermore, Aqua-wall was transferred from Innovation to Facility Services. Comparative figures have been restated accordingly.

The business segments are managed on an international basis, but operate in three principal geographical areas: Northern Europe, Continental Europe and Overseas (Secondary segment).

Business - Primary segment <sup>1)</sup>	Facility Services	Damage Control	Food Hygiene	Health Care	Innovation	Corporate functions	Group
<b>2003</b>							
Turnover	32,585	1,818	1,075	568	128	-	36,174
Operating profit <sup>2)</sup>	2,042	69	81	43	(19)	18	2,234
Operating margin	6.3%	3.8%	7.5%	7.6%	(14.9%)	-	6.2%
Total fixed assets <sup>3)</sup>	12,639	817	280	820	67	62	14,685
Total assets	18,670	1,244	431	927	104	109	21,485
Total provisions <sup>3)</sup>	824	46	17	15	2	1	905
Total current liabilities <sup>4)</sup>	7,250	362	171	158	55	52	8,048
Investments in intangible and tangible assets, net	(329)	(45)	(18)	(19)	(2)	-	(413)
Depreciation and amortisation	469	62	18	19	4	-	572
Employees at year-end	236,318	2,417	5,377	763	78	-	244,953
<b>2002</b>							
Turnover	33,747	1,731	1,058	1,288	167	-	37,991
Operating profit <sup>2)</sup>	1,925	127	78	108	9	(60)	2,187
Operating margin	5.7%	7.3%	7.4%	8.4%	5.4%	-	5.8%
Total fixed assets <sup>3)</sup>	13,131	701	246	787	57	39	14,961
Total assets	19,146	1,138	397	882	84	91	21,738
Total provisions <sup>3)</sup>	837	30	12	17	3	2	901
Total current liabilities <sup>4)</sup>	7,435	272	162	101	58	1,061	9,089
Investments in intangible and tangible assets, net	(381)	(57)	(25)	(29)	(3)	-	(495)
Depreciation and amortisation	491	54	15	20	8	-	588
Employees at year-end	239,825	2,416	5,375	679	130	-	248,425

<sup>1)</sup> After elimination of intra-group transactions, shareholdings and balances.

<sup>2)</sup> Before other income and expenses and royalty.

<sup>3)</sup> Includes deferred tax assets and deferred tax liabilities, respectively.

<sup>4)</sup> Includes short-term interest-bearing loans and borrowings.

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1. Segment information (continued)

Geographical - Secondary segment <sup>1)</sup>	Northern Europe	Continental Europe	Overseas	Corporate Functions	Group
<b>2003</b>					
Turnover	16,671	17,621	1,882	-	36,174
Operating profit <sup>2)</sup>	1,020	1,078	118	18	2,234
Operating margin	6.1%	6.1%	6.3%	-	6.2%
Total fixed assets <sup>3)</sup>	5,171	8,797	655	62	14,685
Total assets	7,580	12,724	1,072	109	21,485
Total provisions <sup>3)</sup>	328	529	47	1	905
Total current liabilities <sup>4)</sup>	3,463	4,254	279	52	8,048
Investments in intangible and tangible assets, net	(233)	(153)	(27)	-	(413)
Depreciation and amortisation	305	240	27	-	572
Employees at year-end	77,146	120,984	46,823	-	244,953
<b>2002</b>					
Turnover	18,250	17,794	1,947	-	37,991
Operating profit <sup>2)</sup>	1,130	1,029	88	(60)	2,187
Operating margin	6.2%	5.8%	4.5%	-	5.8%
Total fixed assets <sup>3)</sup>	5,229	9,007	686	39	14,961
Total assets	7,575	13,004	1,068	91	21,738
Total provisions <sup>3)</sup>	277	583	39	2	901
Total current liabilities <sup>4)</sup>	3,475	4,283	270	1,061	9,089
Investments in intangible and tangible assets, net	(251)	(211)	(33)	-	(495)
Depreciation and amortisation	313	244	31	-	588
Employees at year-end	80,081	123,447	44,897	-	248,425

<sup>1)</sup> After elimination of intra-group transactions, shareholdings and balances.

<sup>2)</sup> Before other income and expenses and royalty.

<sup>3)</sup> Includes deferred tax assets and deferred tax liabilities, respectively.

<sup>4)</sup> Includes short-term interest-bearing loans and borrowings.

2. Staff costs

	Group		Parent company	
	2003	2002	2003	2002
Wages and salaries	(18,458)	(19,831)	-	-
Pensions	(601)	(581)	-	-
Social charges and other costs	(5,253)	(5,185)	-	-
<b>Staff costs</b>	<b>(24,312)</b>	<b>(25,597)</b>	-	-
Average number of employees	246,008	256,498	-	-

Remuneration to the Management and the Board of Directors amounted to DKK 0m (DKK 0m in 2002). The Management and the Board of Directors are employed by and receive salary from ISS A/S.

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<b>3. Other income and expenses, net</b>	Group		Parent company	
	2003	2002	2003	2002
Gain/(loss) on sale of the elderly care segment	6	(25)	-	-
Loss on discontinuation of aviation businesses	(10)	(71)	-	-
Loss on sale and closure of other businesses, net	(10)	(10)	-	-
<b>Divestments and closures, net <sup>1)</sup></b>	<b>(14)</b>	<b>(106)</b>	<b>-</b>	<b>-</b>
Disposal of vacated office space	(10)	-	-	-
Redundancy payments relating to organisational adjustments	(36)	-	-	-
<b>Management and structural changes</b>	<b>(46)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Gain on restructuring of PFI project	-	15	-	-
(Loss)/gain on sale of properties	(4)	17	-	-
Other, net	(2)	4	-	-
<b>Miscellaneous, net</b>	<b>(6)</b>	<b>36</b>	<b>-</b>	<b>-</b>
<b>Other income and expenses, net</b>	<b>(66)</b>	<b>(70)</b>	<b>-</b>	<b>-</b>

<sup>1)</sup> Excluding goodwill write-down.

**4. Royalty**

Royalty comprises payments to ISS Global A/S' parent company, ISS A/S.

<b>5. Financial income and expenses, net</b>	Group		Parent company	
	2003	2002	2003	2002
Interest income etc.	59	74	11	12
Interest income from affiliated companies	0	-	219	243
Foreign currency exchange gain	6	10	-	-
<b>Financial income</b>	<b>65</b>	<b>84</b>	<b>230</b>	<b>255</b>
Interest expenses etc.	(349)	(478)	(227)	(267)
Interest expenses to affiliated companies	0	-	(28)	(43)
Interest on pension provisions	(10)	(7)	-	-
Foreign currency exchange loss	(12)	(9)	(4)	(14)
<b>Financial expenses</b>	<b>(371)</b>	<b>(494)</b>	<b>(259)</b>	<b>(324)</b>
<b>Financial income and expenses, net</b>	<b>(306)</b>	<b>(410)</b>	<b>(29)</b>	<b>(69)</b>

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6. Tax	Group		Parent company	
	2003	2002	2003	2002
Tax on ordinary profit before goodwill amortisation	(519)	(366)	10	24
Tax on income from associates	5	-	-	-
Tax effect of goodwill amortisation	31	39	-	-
Tax on income from subsidiaries	-	-	(492)	(346)
Tax on income from joint ventures	-	-	(1)	(5)
<b>Total tax in the profit and loss account</b>	<b>(483)</b>	<b>(327)</b>	<b>(483)</b>	<b>(327)</b>
<b>Tax paid/(received)</b>	<b>406</b>	<b>223</b>	<b>18</b>	<b>(19)</b>

7. Goodwill amortisation	Group		Parent company	
	2003	2002	2003	2002
Amortisation	(883)	(788)	-	-
Write-down	(11)	(102)	-	-
<b>Goodwill amortisation</b>	<b>(894)</b>	<b>(890)</b>	<b>-</b>	<b>-</b>

The goodwill write-down relates to the winding up and divestment of businesses.

8. Changes in working capital	2003	2002
Changes in inventories	(3)	5
Changes in debtors etc.	346	672
Changes in creditors etc.	(77)	(262)
<b>Changes in working capital</b>	<b>266</b>	<b>415</b>

9. Financial payments, net	2003	2002
Interest-bearing debt at 1 January	(6,484)	(7,334)
Foreign exchange adjustments	79	15
Additions from acquired companies, net	(95)	48
Interest-bearing debt at 31 December	7,065	6,484
<b>Financial payments, net</b>	<b>565</b>	<b>(787)</b>

### 10. Acquisition and divestment of businesses

The Group has made 51 acquisitions during 2003 (31 during 2002). The total purchase price amounted to DKK 990m (DKK 1,724m in 2002). The accumulated annual turnover of the acquisitions amounted to approximately DKK 1,280m (DKK 1,930m in 2002). The balance sheet items etc. relating to acquisitions and divestments in 2003 (including adjustments to acquisitions and divestments in prior years) are specified below:

	2003		2002	
	Acquisitions	Divestments	Acquisitions	Divestments
Fixed assets	(191)	38	(206)	71
Accounts receivable	(242)	14	(324)	161
Other current assets	(150)	31	(227)	100
Other provisions	(11)	(4)	101	(1)
Pensions, deferred tax and minorities	(13)	(9)	54	(5)
Long-term debt	47	(9)	24	(1)
Short-term interest-bearing loans	71	(14)	36	(107)
Other current liabilities	274	(19)	380	(164)
Net identifiable assets	(215)	28	(162)	54
Goodwill on acquisitions	(845)	-	(1,626)	-
Loss on divestment of businesses	-	(4)	-	(17)
Acquisition and integration costs <sup>1)</sup>	78	-	87	-
Deferred tax on acquisition and integration costs	(8)	-	(23)	-
<b>(Purchase)/sales price <sup>2)</sup></b>	<b>(990)</b>	<b>24</b>	<b>(1,724)</b>	<b>37</b>
Acquisition and integration costs paid in the year, net of tax	(87)	-	(160)	-
Payments deferred to next year	94	-	60	-
Payments relating to prior years	(64)	-	(176)	(6)
Payments relating to acquisitions taken over in 2004	(136)	-	-	-
<b>(Purchase)/sales price and acquisition costs paid</b>	<b>(1,183)</b>	<b>24</b>	<b>(2,000)</b>	<b>31</b>
Liquidity in acquired/(divested) companies	118	(4)	102	(15)
<b>Cash flow from (acquisition)/divestment of businesses</b>	<b>(1,065)</b>	<b>20</b>	<b>(1,898)</b>	<b>16</b>

<sup>1)</sup> The amount in 2003 of DKK 78m (DKK 87m in 2002) consisted of acquisition costs of approximately DKK 34m (DKK 57m in 2002) and integration costs of approximately DKK 44m (DKK 30m in 2002). The costs mainly related to the acquisitions of Anticimex Building Environment in Damage Control, Drielanden Groep in the Netherlands as well as Cosmo and Limpiezas Garayalde Beleaes in Spain.

<sup>2)</sup> In order to respect the interest of the sellers/buyers, the purchase/sales price is not disclosed for each individual transaction.

11. Investments in fixed assets	2003	2002
Purchase of intangible and tangible assets	(553)	(635)
Proceeds on sale of intangible and tangible assets	140	140
<b>Investments in intangible and tangible assets, net</b>	<b>(413)</b>	<b>(495)</b>
Purchase of financial assets	(61)	(115)
Proceeds on sale of financial assets	92	84
<b>Investments in financial assets, net</b>	<b>31</b>	<b>(31)</b>

12. Cash and cash equivalents	2003	2002
Securities	12	14
Liquid funds	358	261
<b>Cash and cash equivalents</b>	<b>370</b>	<b>275</b>

Securities consist of listed mortgage bonds. Liquid funds comprise bank and cash balances.

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<b>13. Intangible assets</b>	Goodwill	Software and other intangible assets	Total
Cost at 1 January 2003	16,118	287	16,405
Foreign exchange adjustments	(180)	(8)	(188)
Additions	813	63	876
Additions from acquired companies, net	(10)	6	(4)
Disposals	(18)	(27)	(45)
Transfer from Tangible assets	-	55	55
<b>Cost at 31 December 2003</b>	<b>16,723</b>	<b>376</b>	<b>17,099</b>
Amortisation at 1 January 2003	(3,449)	(143)	(3,592)
Foreign exchange adjustments	57	5	62
Amortisation	(894)	(80)	(974)
Amortisation from acquired companies, net	10	(3)	7
Disposals	18	21	39
Transfer from Tangible assets	-	(33)	(33)
<b>Amortisation at 31 December 2003</b>	<b>(4,258)</b>	<b>(233)</b>	<b>(4,491)</b>
<b>Carrying amount at 31 December 2003</b>	<b>12,465</b>	<b>143</b>	<b>12,608</b>
<b>Carrying amount at 31 December 2002</b>	<b>12,669</b>	<b>144</b>	<b>12,813</b>

<b>14. Tangible assets</b>	Land and buildings	Vehicles, fixtures, service and IT equipment	Total
Cost at 1 January 2003	229	3,997	4,226
Foreign exchange adjustments	(2)	(104)	(106)
Additions	5	485	490
Additions from acquired companies, net	36	199	235
Disposals	(39)	(645)	(684)
Transfer to Intangible assets and Other receivables <sup>1)</sup>	(23)	(26)	(49)
<b>Cost at 31 December 2003</b>	<b>206</b>	<b>3,906</b>	<b>4,112</b>
Depreciation at 1 January 2003	(61)	(2,672)	(2,733)
Foreign exchange adjustments	1	76	77
Depreciation	(10)	(482)	(492)
Depreciation from acquired companies, net	(4)	(110)	(114)
Disposals	15	550	565
Transfer to Intangible assets	9	24	33
<b>Depreciation at 31 December 2003</b>	<b>(50)</b>	<b>(2,614)</b>	<b>(2,664)</b>
<b>Carrying amount at 31 December 2003</b>	<b>156</b>	<b>1,292</b>	<b>1,448</b>
<b>Carrying amount at 31 December 2002</b>	<b>168</b>	<b>1,325</b>	<b>1,493</b>

<sup>1)</sup> DKK 55m has been transferred to Intangible assets and DKK 6m has been transferred from Other receivables.

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**14. Tangible assets (continued)**

Land and buildings with a carrying amount of DKK 40m (DKK 50m in 2002) have been provided as collateral for mortgage debt of DKK 15m (DKK 9m in 2002). Service equipment with a carrying amount of DKK 7m (DKK 13m in 2002) has been provided as collateral for interest-bearing loans and borrowings of DKK 18m (DKK 20m in 2002). The Group has some service equipment under finance lease agreements. The carrying amount of service equipment under finance leases was DKK 78m (DKK 32m in 2002). The official rateable value for land and buildings in Denmark amounted to DKK 0m (DKK 7m in 2002).

<b>15. Financial assets (Group)</b>	Investments in associates	Receivables from associates	Other securities and investments	Other receivables
Cost at 1 January 2003	46	25	68	156
Foreign exchange adjustments	(1)	(2)	(1)	(7)
Additions	27	-	-	34
Additions from acquired companies, net	4	-	2	7
Disposals	(5)	-	(10)	(52)
<b>Cost at 31 December 2003</b>	<b>71</b>	<b>23</b>	<b>59</b>	<b>138</b>
Revaluation at 1 January 2003	(11)	-	11	-
Foreign exchange adjustments	0	-	0	-
Net profit for the year	12	-	(1)	-
Dividends received	(2)	-	-	-
Disposals	(3)	-	5	-
<b>Revaluation at 31 December 2003</b>	<b>(4)</b>	<b>-</b>	<b>15</b>	<b>-</b>
<b>Carrying amount at 31 December 2003</b>	<b>67</b>	<b>23</b>	<b>74</b>	<b>138</b>
<b>Carrying amount at 31 December 2002</b>	<b>35</b>	<b>25</b>	<b>79</b>	<b>156</b>

Associates are listed on pages 60-61 of this report.

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<b>15. Financial assets (Parent company)</b>	Investments in subsidiaries	Investments in joint ventures	Receivables from associates	Receivables from affiliated companies	Other securities and investments
Cost at 1 January 2003	8,520	140	25	1,727	23
Foreign exchange adjustments	-	-	(2)	4	-
Additions	1,244	-	-	-	-
Disposals	(43)	(101)	-	(685)	-
<b>Cost at 31 December 2003</b>	<b>9,721</b>	<b>39</b>	<b>23</b>	<b>1,046</b>	<b>23</b>
Revaluation at 1 January 2003	(1,073)	(5)	-	(1)	11
Foreign exchange adjustments	(156)	(5)	-	-	-
Dividends received	(51)	-	-	-	-
Net profit for the year	74	(2)	-	-	5
Disposals	(8)	39	-	1	-
<b>Revaluation at 31 December 2003</b>	<b>(1,214)</b>	<b>27</b>	<b>-</b>	<b>-</b>	<b>16</b>
<b>Carrying amount at 31 December 2003</b>	<b>8,507</b>	<b>66</b>	<b>23</b>	<b>1,046</b>	<b>39</b>
<b>Carrying amount at 31 December 2002</b>	<b>7,447</b>	<b>135</b>	<b>25</b>	<b>1,726</b>	<b>34</b>

<b>16. Deferred tax</b>	Group		Parent company	
	2003	2002	2003	2002
Tax loss carried forward, net	320	407	-	-
Provisions	224	274	0	5
Set-off within legal tax units and jurisdictions	(217)	(321)	-	-
<b>Deferred tax assets</b>	<b>327</b>	<b>360</b>	<b>0</b>	<b>5</b>
Goodwill	191	308	-	-
Fixed assets	82	99	-	-
Other	67	27	-	-
Set-off within legal tax units and jurisdictions	(217)	(321)	-	-
<b>Deferred tax liabilities</b>	<b>123</b>	<b>113</b>	<b>-</b>	<b>-</b>

A deferred tax liability associated with investments in subsidiaries, joint ventures and associates has not been recognised, because the Group 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.

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<b>17. Inventories</b>	Group		Parent company	
	2003	2002	2003	2002
Raw materials and supplies	92	84	-	-
Work in progress	-	2	-	-
Finished goods	86	84	-	-
<b>Inventories</b>	<b>178</b>	<b>170</b>	<b>-</b>	<b>-</b>

<b>18. Contract work in progress</b>	Group		Parent company	
	2003	2002	2003	2002
Contract expenses	132	165	-	-
Recognised profits	33	33	-	-
<b>Contract work in progress, gross</b>	<b>165</b>	<b>198</b>	<b>-</b>	<b>-</b>
Advances and prepayments from third parties	(63)	(85)	-	-
<b>Contract work in progress, net</b>	<b>102</b>	<b>113</b>	<b>-</b>	<b>-</b>

**19. Prepayments and accrued income**

Prepayments and accrued income primarily consists of prepaid costs and accrued interest.

<b>20. Share capital</b>	2003	2002	2001	2000	1999
<b>Share capital</b>					
Share capital at 1 January	150	5	3	2	1
Additions from merger	-	140	-	-	-
Increase of share capital	-	5	2	1	1
<b>Share capital at 31 December</b>	<b>150</b>	<b>150</b>	<b>5</b>	<b>3</b>	<b>2</b>

The share capital consists of 150,000 shares of DKK 1,000 nominal value each. No shares carry any special rights.

The Company's share capital is held 100% by ISS A/S, CVR no 10 16 16 14.

<b>21. Minority Interests</b>	Group		Parent company	
	2003	2002	2003	2002
Minority interests at 1 January	88	57	-	-
Foreign exchange adjustments	(5)	1	-	-
Additions from acquired companies, net	3	17	-	-
Dividends paid	(8)	(5)	-	-
Net profit for the year	30	18	-	-
<b>Minority interests at 31 December</b>	<b>108</b>	<b>88</b>	<b>-</b>	<b>-</b>

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<b>22. Other provisions (Group)</b>	Labour- related items	Self- insurance	Acquisitions	Other	Total
Carrying amount at 1 January 2003	67	28	77	400	572
Foreign exchange adjustments	-	(2)	(1)	-	(3)
Transfers	5	-	1	(6)	-
Additions from acquired companies, net	1	-	-	10	11
Provisions included in goodwill during the year	-	-	85	-	85
Provisions made during the year	28	21	-	84	133
Provisions used during the year	(17)	(9)	(90)	(84)	(200)
Provisions not used (reversed against profit and loss)	(1)	-	-	(38)	(39)
Provisions not used (reversed against goodwill)	-	-	(11)	(19)	(30)
<b>Carrying amount at 31 December 2003</b>	<b>83</b>	<b>38</b>	<b>61</b>	<b>347</b>	<b>529</b>
Current	61	9	54	154	278
Non-current	22	29	7	193	251
	<b>83</b>	<b>38</b>	<b>61</b>	<b>347</b>	<b>529</b>

Provisions are not discounted, because the effect of time value of money is not material.

<b>Labour-related items:</b>	The provision mainly relates to obligations in Belgium, Brazil, France, the Netherlands, Spain and the UK.
<b>Self-insurance:</b>	In Ireland and the UK, ISS carries an insurance provision for employers liability. ISS is self-insured up to DKK 38m for employers liability.
<b>Acquisitions:</b>	The provision includes obligations arising as a direct consequence of acquisitions, mainly related to transaction costs, redundancy payments and termination of rental of properties.
<b>Other:</b>	The provision comprises various obligations incurred in the normal course of business e.g. costs related to changes in local working and social regulations etc., provision for operational issues, closure of contracts and legal cases.

<b>23. Long-term debt</b>	Carrying amount	
	2003	2002
<b>Facilities <sup>1)</sup></b>		
DKK 11,137m <sup>2)</sup>	-	5,543
DKK 1,861m (maturity in 2009)	24	-
<b>Revolving loan facilities <sup>3)</sup></b>	<b>24</b>	<b>5,543</b>
Bond loan	6,323	-
<b>Total long-term debt (Parent Company)</b>	<b>6,347</b>	<b>5,543</b>
Mortgage loans	16	9
Other bank loans	27	54
Obligations under finance leases	61	37
Current portion of long-term debt	(5)	(1)
<b>Total long-term debt (Group)</b>	<b>6,446</b>	<b>5,642</b>

In addition to the revolving loan facilities listed above, the Group (and the Parent Company) has at 31 December 2003 unused facilities of DKK 1,228m and DKK 4,838m with maturity in 2006 and 2008, respectively.

<sup>1)</sup> Loan facilities are denominated in several currencies and translated using year-end exchange rates to Danish kroner.

<sup>2)</sup> Facility cancelled during 2003.

<sup>3)</sup> All revolving loan facilities carry floating interest rates.

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### 23. Long-term debt (continued)

The Group's total long-term loans and borrowings at 31 December are denominated in the following original currencies:

	2003	2002
EUR	98.9%	89.8%
DKK	0.5%	2.4%
SEK	0.3%	2.8%
NOK	0.1%	0.2%
USD related	0.0%	3.8%
Others	0.2%	1.0%
	<b>100.0%</b>	<b>100.0%</b>

The Group has no subordinated debt and no debt convertible into equity.

### 24. Financial assets and liabilities (Group)

Repayment periods and effective interest rates applying to the Group's financial assets and liabilities are stated below:

	Repayment period			Total	Effective interest rate <sup>1)</sup>
	0-1 year	1-5 years	More than 5 years		
Receivables from associates <sup>2)</sup>	-	23	-	23	5.9%
Other receivables <sup>3)</sup>	-	118	20	138	-
Accounts receivable	5,420	-	-	5,420	-
Other receivable (current) <sup>4)</sup>	319	-	-	319	-
Securities	12	-	-	12	-
Liquid funds	358	-	-	358	2.2%
Long-term debt <sup>5)</sup>	(5)	(89)	(6,357)	(6,451)	2.8%
Interest-bearing loans and borrowings	(614)	-	-	(614)	4.0%
Trade creditors	(1,341)	-	-	(1,341)	-

<sup>1)</sup> Weighted average taking the effect of interest rate hedges into account.

<sup>2)</sup> Loan to Fernley Airport Services Ltd.

<sup>3)</sup> Consists of various receivables, e.g. deposits and financial leasing (lessor).

<sup>4)</sup> Includes prepayments of DKK 136m regarding the acquisitions of Muraka Groep BV in the Netherlands, AGS Gebäudereinigung GmbH in Austria, Adviso Office AS and Clean Tekstil Service in Norway.

<sup>5)</sup> Including current portion of long-term debt.

### 25. Pensions and similar obligations

The Group 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 the Group has no legal or constructive obligation to pay further contributions irrespective of the funding of these insurance companies. Pension costs from such plans are recorded as expenses when incurred.

In some countries, most significantly, the Netherlands, Norway, Sweden and the UK, the Group 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, the obligation is unfunded.

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## 25. Pensions and similar obligations (continued)

The group participates in the Finnish TEL pension scheme, which covers all employees in the private sector. The scheme is accounted for as a defined contribution plan. However, the accounting treatment of this scheme is currently debated in Finland and may result in the accounting treatment being revised in the future.

In Sweden, the Group participates in a multi-employer pension scheme. The fund is currently not able to provide the necessary information in order for the ISS to account for the scheme as a defined benefit plan.

In 2003, provisions related to a defined benefit plan in Austria have been reclassified from Other provisions to Net liability for defined benefit plans.

Principal actuarial assumptions for defined benefit plans at the balance sheet date are as follows:

	2003	2002
Discount rate at 31 December <sup>1)</sup>	2.5-5.5%	2.5-6.0%
Expected return on plan assets	2.5-7.2%	5.5-7.0%
Social security rate	2.0-3.0%	2.0-2.8%
Future salary increase	2.0-4.0%	2.5-3.5%
Future pension increase	1.6-3.0%	1.6-2.5%

The amounts recognised in the consolidated profit and loss account for defined benefit plans are as follows:

Current service costs	62	80
Interest on obligation	79	79
Expected return on plan assets	(63)	(77)
Recognised transition, past service and actuarial losses, net	2	3
<b>Recognised in the profit and loss account</b>	<b>80</b>	<b>85</b>

The amounts recognised in the consolidated balance sheet for defined benefit plans are as follows:

Present value of funded obligations	1,329	1,294
Fair value of plan assets	(1,084)	(1,147)
Funded obligations, net	245	147
Present value of unfunded obligations	285	245
Unrecognised actuarial losses	(307)	(198)
Unrecognised transition gains/(losses)	1	(6)
Unrecognised past service income	1	1
<b>Net liability for defined benefit plans at 31 December</b>	<b>225</b>	<b>189</b>

Movements in the net liability recognised in the consolidated balance sheet are as follows:

Net liability at 1 January before reclassification	189	178
Reclassification	17	-
Net liability at 1 January	206	178
Foreign exchange adjustments	3	(2)
Additions from acquired companies, net	3	31
Net expenses recognised	80	85
Contributions	(67)	(103)
<b>Net liability for defined benefit plans at 31 December</b>	<b>225</b>	<b>189</b>
Other pensions and obligations	28	27
<b>Pensions and similar obligations at 31 December</b>	<b>253</b>	<b>216</b>

<sup>1)</sup> Based on high quality corporate bonds.

## 26. Contingent liabilities

### **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 profit and loss account amounted to DKK 1,141m (DKK 1,113m in 2002). Assuming the current car fleet etc. is maintained, the future minimum payments under operating leases at 31 December 2003 are (DKK 2,381m in 2002):

2004	2005	2006	2007	2008	After 2008	Total lease payment
812	568	411	290	192	322	2,595

DKK 37m (DKK 51m in 2002) of the total future lease payment relates to sub-leasing of properties and cars to associates (CarePartner).

### **Guarantee commitments**

Indemnity and guarantee commitments at 31 December 2003 amounted to DKK 59m (DKK 62m in 2002), of which DKK 31m (DKK 33m in 2002) related to associates (CarePartner).

### **Performance guarantees**

The Group has issued performance guarantee bonds for service contracts with an annual turnover of DKK 586m (DKK 524m in 2002) of which DKK 446m (DKK 394m in 2002) are bank-guaranteed performance bonds. Such performance bonds are issued in the ordinary course of business in the service industry. These performance bonds include DKK 2m (DKK 5m in 2002) related to associates (CarePartner). The Group has not paid any compensation under such performance bonds in recent years.

### **Outsourcing of IT**

The Group has signed a 10-year IT-outsourcing agreement with CSC. ISS can terminate the agreement no earlier than with effect from 1 January 2005. The Group's contractual obligation related to the agreement amounted to approximately DKK 209m at 31 December 2003.

### **Divestments**

ISS makes provisions for claims from purchasers or other parties in connection with divestments. Management believes that provisions made at 31 December 2003 are adequate. However, there can be no assurance that one or more major claims arising out of the Group's divestment of companies will not adversely affect the Group's activities, results of operations and financial position.

In 2002, ISS disposed 51% of the airside aviation activities in the UK. The buyer and ISS have agreed that at a subsequent sale of the company to a third party, the proceeds will be allocated to the effect that the original buyer up-front is allocated DKK 5m. Furthermore, the proceeds must compensate the original buyer for any under-funding of defined benefit plan at the time of the third-party sale with an amount of up to DKK 7m.

### **Legal proceedings**

The Group is party to certain legal proceedings. Management believes that these proceedings (which are to a large extent labour cases incidental to its business) will not have a material impact on the Group's financial position.

### **Other contingent liabilities**

In the Annual Report 2002 it was mentioned that ISS Brazil in the first half of 2000 received an enquiry from the local authorities on corporate tax issues for the fiscal year 1989-90. There has been no further development during 2003. ISS has a number of counterclaims and the matter has been investigated by the ISS Brazil management, by KPMG Brazil and by local lawyers. The conclusions from the risk evaluation are that ISS has strong arguments of defence.

### **Tax and VAT**

The Company and the other Danish jointly-taxed companies are jointly liable for the taxes on the income subject to joint taxation. Furthermore, the Company and some of the Danish companies are jointly registered for VAT and are jointly liable for the payments hereof.

### **Parent company guarantees**

The Parent Company has issued guarantees for subsidiaries' local bank overdrafts totalling DKK 3,018m (DKK 3,339m in 2002). As per 31 December 2003 DKK 1,101m is utilised (DKK 1,280m in 2002). The Company has issued a DKK 17m guarantee towards the seller in connection with an acquisition in Brazil (DKK 16m in 2002). Furthermore, the Company has issued other guarantees for subsidiaries totalling DKK 139m (DKK 131m in 2002).

Notes to the  
Financial Statements

27. Derivatives

Contractual values and unrealised gains and losses are specified below for financial instruments used to hedge the foreign exchange risk and the interest rate risk:

Financial instruments	Contractual values	Unrealised gains/(losses) on revaluation to fair value	Included in the profit & loss account for 2003	Taken directly to equity on 31 December 2003	Maturity
<b>Forward foreign currency, purchases:</b>					
EUR	1,720	1	1	-	2004
SEK	246	-	-	-	2004
SGD	74	-	-	-	2004
HKD	69	-	-	-	2004
NOK	54	-	-	-	2004
GBP	52	-	-	-	2004
AUD	23	-	-	-	2004
Others	14	-	-	-	2004
	<b>2,252</b>	<b>1</b>	<b>1</b>	<b>-</b>	
<b>Forward foreign currency, sales:</b>					
EUR	2,446	(1)	(1)	-	2004
SEK	1,403	(5)	(4)	(1)	2004
GBP	876	-	-	-	2004
AUD	266	(17)	-	(17)	2004
CHF	265	-	-	-	2004
USD related	137	1	-	1	2004
SGD	89	(4)	-	(4)	2004
Others	50	-	-	-	2004
	<b>5,532</b>	<b>(26)</b>	<b>(5)</b>	<b>(21)</b>	
<b>Interest rate instruments:</b>					
Interest rate swaps (EUR), receiver <sup>1)</sup>	6,328	85	78	7	2010
Interest rate swaps (EUR), payer	298	(12)	-	(12)	2005
		<b>73</b>	<b>78</b>	<b>(5)</b>	
<b>Total financial instruments</b>		<b>48</b>	<b>74</b>	<b>(26)</b>	
<b>Hedging of net investments in foreign subsidiaries</b>					
		Net investments in foreign subsidiaries in DKKm	Hedging in DKKm	Net investments with translation risk in DKKm	Net investments with translation risk in local currency
EUR		2,108	22	2,130	286
GBP		650	(370)	280	26
SEK		527	(336)	191	233
USD related		428	(77)	351	59
AUD		271	(267)	4	1
CHF		220	(134)	86	18
SGD		114	(63)	51	15
Others		510	(46)	464	-
		<b>4,828</b>	<b>(1,271)</b>	<b>3,557</b>	

For a description of foreign exchange risk, credit risk and interest rate risk, please refer to pages 27-28 of this report.

<sup>1)</sup> The swap converts the fixed interest rate on the bond loan into a floating interest rate.

## 28. Related party transactions

Apart from ISS A/S none of the related parties have controlling influence in the Group. The Company is included in the Consolidated Financial Statements for 2003 of ISS A/S.

Related parties to the Group with a significant, but not controlling influence are:

### Members of the Management Board and the Board of Directors

There have been no transactions with members of the Management Board or the Board of Directors during the year.

### Joint Ventures and Associates

Apart from the loan described in note 24, guarantee commitments as described in note 26 and limited transactions related to shared service agreements, there have been no significant transactions with joint ventures and associates during the year. All transactions are made on marked terms.

In addition to the above and except from intra-group transactions, which have been eliminated in the consolidated accounts, there have been no material transactions with related parties during the year.

## 29. Interests in joint ventures

The Group has interests in five joint ventures (six in 2002), which are specified on pages 60-61 of this report. The Group's interests in the five joint ventures' net profit for the year and the balance sheet items are included in the Group's consolidated profit and loss account and balance sheet with the following amounts:

	2003	2002
Turnover	210	428
Operating profit	11	23
Ordinary profit before goodwill amortisation	9	16
Net profit for the year	9	15
Intangible assets <sup>1)</sup>	1	13
Tangible assets	15	21
Financial assets	3	1
Deferred tax assets	1	4
Current assets	49	143
<b>Total assets</b>	<b>69</b>	<b>182</b>
Equity	33	93
Total provisions and Long-term debt	3	26
Current liabilities	33	63
<b>Total equity and liabilities</b>	<b>69</b>	<b>182</b>

<sup>1)</sup> Excluding goodwill arising from the acquisition of the joint ventures.

## 30. Fees to auditors

	Group		Parent company	
	2003	2002	2003	2002
<b>Audit fees: <sup>1)</sup></b>				
KPMG	24	27	0	1
<b>Fees, other than audit fees: <sup>2)</sup></b>				
KPMG	12	14	0	0

<sup>1)</sup> Audit fees comprise audit of the Financial Statements and local statutory audit.

<sup>2)</sup> Fees, other than audit fees primarily include assistance in relation to acquisitions and divestments, tax advisory services and other advisory services.

## Definitions

Cash conversion, %	=	$\frac{\text{Free cash flow} \times 100}{\text{Ordinary profit before goodwill amortisation}}$
Debt to book equity ratio, %	=	$\frac{\text{Interest-bearing debt, net} \times 100}{\text{Total equity}}$
Equity ratio, %	=	$\frac{\text{Total equity} \times 100}{\text{Total assets}}$
Free cash flow	=	Cash flow from operating activities - Investments in intangible and tangible assets, net
Interest-bearing debt, net	=	Long-term debt + Current portion of long-term debt + Interest-bearing loans and borrowings + Amounts owed to affiliated companies, net - Liquid funds - Securities
Interest coverage	=	$\frac{\text{Operating profit before other income and expenses and royalty} + \text{Depreciation and amortisation}}{\text{Financial income and expenses, net}}$
Operating margin, %	=	$\frac{\text{Operating profit before other income and expenses and royalty} \times 100}{\text{Turnover}}$
Return on equity before tax, %	=	$\frac{\text{Ordinary profit before tax and goodwill amortisation} \times 100}{\text{Average Total equity}}$

# ***Company information***

## Acquisitions and Divestments

During 2003, the Group has made 51 acquisitions

Company	Service segment	Country	Profit and loss consolidated from	Percentage interest	Turnover DKKm <sup>1)</sup>	Number of employees <sup>1)</sup>
Spectrum Holding Ltd. (Rainbow)	Damage Control	UK	January	100%	44	51
Fioso Oy	Facility Services	Finland	February	Activities	9	20
Partasen Talohoulo Oy	Facility Services	Finland	February	Activities	3	16
Steinbauer GmbH	Facility Services	Austria	February	100%	31	47
Ocab i Östergötland AB	Damage Control	Sweden	February	Activities	6	10
Group 3S NV	Facility Services	Belgium	February	Activities	32	160
FAURE Sarl	Facility Services	France	March	100%	4	9
Securitas Grønland A/S	Facility Services	Greenland	March	100%	23	33
Arribox SBE	Facility Services	Italy	March	100%	16	20
Bavaria Brandsanierung GmbH	Damage Control	Germany	April	100%	44	24
Abbey Pest Control Services Ltd.	Facility Services	Ireland	April	100%	4	7
UKT Group	Damage Control	Finland	April	100%	14	29
Lilja & Co	Facility Services	Sweden	April	100%	27	110
Kiinteistöhuolto Sormunen Oy	Facility Services	Finland	May	100%	4	13
Grupo Garcia	Facility Services	Spain	May	100%	82	654
Ketol AG	Facility Services	Switzerland	June	100%	27	26
Pest Consult International	Facility Services	Spain	June	100%	6	20
Force Sud Hygiene Sarl	Facility Services	France	July	100%	9	21
ELAPARC	Facility Services	France	July	100%	21	60
Rånås Rehabiliteringscenter AB and Knivsta Rehabilitering AB	Health Care	Sweden	July	100%	52	105
Drielanden Groep	Facility Services	Netherlands	July	100%	124	217
Rengöringsselskabet Asiaat	Food Hygiene	Greenland	July	Activities	6	20
Impressions Cleaning Scotland Ltd	Facility Services	UK	July	100%	36	600
A.J. Sjong	Facility Services	Norway	August	Activities	36	46
Waterers Landshape (Holdings) Plc	Facility Services	UK	August	100%	217	598
Jyvässkylän Aulapalvelut Oy	Facility Services	Finland	August	Activities	2	5
Airmatic Group	Facility Services	Finland	August	100%	8	13
Wizard Pest Control	Facility Services	Australia	August	Activities	3	5
Cosmo	Facility Services	Spain	August	100%	67	708
Limpiezas Garayalde Navarra S.A.	Facility Services	Spain	August	100%	15	322
Ballina Contract Cleaners	Facility Services	Ireland	September	Activities	2	20
Celtic PHS	Facility Services	Ireland	September	Activities	2	2
Desma S.A.	Facility Services	Spain	September	100%	10	25
Jardin des Pierres Dorées	Facility Services	France	September	100%	34	49
Limpiezas Garayalde Baleares S.A.	Facility Services	Spain	September	100%	23	386
Jäävuori Group	Facility Services	Finland	October	100%	12	24
Alpha Services Hygiène Sarl	Facility Services	France	October	100%	5	12
Food Hygiene Technics	Food Hygiene	Belgium	October	Activities	29	175
Hygiène Contrôle S.A.	Facility Services	France	October	Activities	2	5
Mjöll ræstingardeild	Food Hygiene	Iceland	October	Activities	5	63
Blineau Espaces Verts	Facility Services	France	October	100%	15	33
De Punt	Facility Services	Netherlands	October	100%	75	165
Hjem og Industrirenhold	Facility Services	Norway	November	Activities	3	10
Svalbard Reiser AS	Facility Services	Norway	November	Activities	6	8
Swan Group	Facility Services	Australia	November	Activities	1	2
L&T Kotka and Karhula	Facility Services	Finland	November	Activities	5	14
Sanico Hygiene Services	Facility Services	Australia	November	Activities	5	15
Group Tesson	Facility Services	France	November	100%	52	98
HF-Siivous Oy	Facility Services	Finland	December	100%	7	148
Muraka Groep BV	Facility Services	Netherlands	December	100%	7	13
Grupo Serdesa	Facility Services	Spain	December	100%	8	19
<b>Total</b>					<b>1,280</b>	<b>5,255</b>

From 1 January 2004 to 4 March 2004, the Group has made 25 acquisitions

Company	Service segment	Country	Profit and loss consolidated from	Percentage interest	Turnover DKKm <sup>1)</sup>	Number of employees <sup>1)</sup>
Anticimex Building Environment	Damage Control	Norway	January	Activities	64	158
Adviso Office AS	Facility Services	Norway	January	100%	82	67
Clean Tekstil Service	Facility Services	Norway	January	Activities	10	19
AGS Gebäudereinigung GmbH	Facility Services	Austria	January	100%	100	700
Pohjolan Euroilma Oy	Facility Services	Finland	January	100%	21	17
Hygiene Haut-Rhinoise	Facility Services	France	January	Activities	1	0
Assainic SNC	Facility Services	France	January	100%	15	28
Harrwood Services Ltd.	Facility Services	UK	January	100%	43	897
MTH-Palvelu	Facility Services	Finland	January	Activities	4	20
Kiinteistöhuolto Suoknuuti	Facility Services	Finland	January	Activities	4	15
HS-Maalaus OY	Facility Services	Finland	January	Activities	3	7
Novipam	Facility Services	Italy	January	Activities	1	3
Erik Nilsen Rengjøring	Facility Services	Norway	January	Activities	3	14
ABB MGT	Facility Services	Portugal	January	Activities	9	27
Group Force Sécurité International	Facility Services	France	January	Activities	82	400
ServicePartneren	Facility Services	Denmark	February	Activities	1	5
STHH-HDH	Facility Services	France	February	Activities	4	8
Donegal Vermin Controls	Facility Services	Ireland	February	Activities	1	2
Het Groene Team	Facility Services	Netherlands	February	Activities	19	50
Cap Invest	Facility Services	France	February	Activities	18	350
Party & Dinner N.V.	Facility Services	Belgium	February	100%	99	225
Haagan Putki Oy	Facility Services	Finland	March	100%	19	31
Olssons Ståd AB	Facility Services	Sweden	March	100%	17	135
Eaton Fine Dining Limited	Facility Services	UK	March	100%	214	560
Melin Participations	Facility Services	France	March	100%	49	52
<b>Total</b>					<b>883</b>	<b>3,790</b>

During 2003, the Group has divested the following activities

Company/activity	Service segment	Country	Month of disposal	Turnover DKKm <sup>1)</sup>
Cofor	Facility Services	France	January	68
Runway	Facility Services	Austria	April	1
AICO	Facility Services	Slovenia	April	4
Valet Services	Facility Services	Israel	May	2
Babolna Bio	Facility Services	Hungary	May	61
ISS Data	Innovation	Denmark	June	17
Kleesattel	Facility Services	Germany	July	68
<b>Total</b>				<b>221</b>

Effective in February 2004, ISS has divested the industrial services activities of Damage Control in Norway with an annual turnover of approximately DKK 28 million.

<sup>1)</sup> Approximate figures based on information available at the time of acquisition or divestment.

## Subsidiaries, Joint Ventures and Associates <sup>1)</sup>

<b>Argentina</b>					
ISS Argentina S.A.	100%		Espaces Verts Méd. SAS		100%
			Eurogestion SAS		100%
			FCF Sarl		100%
<b>Australia</b>			Force Sud Hygiene Sarl		100%
WA Flick & Co. Pty. Ltd.	100%		Intergreen SA		100%
			ISS Abilis France SAS		100%
<b>Austria</b>			ISS Bati Services SAS		100%
ISS Central Europe Holding GmbH	100%		ISS Energie SAS		100%
ISS Airest Bodenabfertigungsdienste GmbH	51%		ISS Hygiene Services SA		100%
ISS Hygiene Dienstleistungs GmbH	100%		ISS Logistique et Production SA		100%
ISS Servisystem GmbH	100%		Jardem SAS		100%
Steinbauer GmbH	100%		Jardin des Pierres Dorées SA		100%
			Miège et Piolet SAS		100%
<b>Belgium</b>			NCI Abilis SAS		100%
ISS N.V.	100%		Paraxilocentre SA		100%
ISS Food N.V.	100%		Paysages de France SAS		100%
Prohygiene S.A.	100%		Qualitec SA		100%
			Sédico SAS		100%
<b>Brazil</b>			Sema Hygiene SAS		100%
ISS Servisystem Com.e Ind. Ltda.	100%		Setap SAS		100%
			Sol Verts SAS		100%
<b>Brunei</b>			Solhet SAS		100%
ISS Thomas Cowan Sdn. Bhd.	50%		SSDN SAS		100%
			Tesson Paysages SAS		100%
<b>China</b>			Verts P. Aménagement SAS		100%
ISS ESGO Beijing Xin Sha Building Services Co. Ltd.	50%**		ViaPark SAS		100%
<b>Croatia</b>			<b>Germany</b>		
ISS Multiservice d.o.o.	70%		ISS Holding GmbH		100%
			Bavaria Brandsanierung GmbH		100%
<b>Czech Republic</b>			ISS Damage Control Deutschland GmbH		100%
ISS Česká Republika spol s.r.o..	100%		ISS Deutschland GmbH		100%
ISS Automotive spol s.r.o	100%		ISS HWD GmbH		100%
			ISS HWS GmbH & Co. KG		100%
<b>Denmark</b>			ISS Personaldienst GmbH		100%
ISS Danmark A/S	100%		ISS Wäscheservice GmbH & Co. KG		100%
Albertslund Kloakservice ApS	100%		Klaus Harren GmbH		100%
Fjordkøkkenet A/S	51%		Vatro Trocknungs- und Sanierungstechnik GmbH & Co. KG		80%
House of Coffee A/S	100%		Vatro Verwaltungs GmbH		80%
Interfurn A/S	50%				
ISS Food Hygiene A/S	100%		<b>Greece</b>		
ISS Funding A/S	100%		ISS Servisystem S.A.		100%
ISS Industri- og Skadeservice A/S	100%		ISS Human Resources S.A.		100%
ISS Venture A/S	100%				
Slotsholmen Teknik A/S	50%		<b>Greenland</b>		
			ISS Grønland A/S		100%
<b>Finland</b>					
ISS Suomi Oy	100%		<b>Hong Kong</b>		
ISS Tekniset Palvelut Oy	100%		ISS Hong Kong Services Ltd.		100%
ISS Vahinkosaneeraus Oy	100%		ISS Environmental Services (HK) Ltd.		100%
Lounas-Suomi Oy	52%		ISS Mediclean (HK) Ltd.		100%
Projektitkonsultit Oy	100%		Reliance Airport Cleaning Services Ltd.		100%
Rauman Siivouskeskus Oy	80%		Roboclean (HK) Co. Ltd.		80%
Suomen Laatutakuu Palvelut Oy	100%				
			<b>Hungary</b>		
<b>France</b>			ISS Servisystem Kft.		100%
ISS Holding Paris SA	100%				
Alpha Services Hygiene Sarl	100%		<b>Iceland</b>		
Arden Espaces Verts SAS	100%		ISS Island HF		100%
ATB SAS	100%				
Atlantique Paysages SAS	100%		<b>Indonesia</b>		
Blineau SA	100%		Pt. ISS Servisystem		100%
Boissur SA	100%				
Brio SAS	100%		<b>Ireland</b>		
CGEV SA	100%		ISS Ireland Ltd.		100%
Channel P.S. SAS	100%		Contract Cleaners Ltd.		100%
CSCOM SARL	100%		ISS Hygiene Services Ltd.		100%
ElaParc SAS	100%				

<b>Israel</b>		<b>Slovenia</b>	
ISS-Ashmoret Ltd.	50%	ISS Servisystem d.o.o.	100%
<b>Italy</b>		<b>Spain</b>	
ISS Facility Services srl	100%	Integrated Service Solutions Holding Spain S.L.	100%
Libco srl	100%	Desma S.A.	100%
<b>Japan</b>		Gelim S.A.	100%
ISS Nesco Ltd.	50%*	ISS European Cleaning System S.A.	100%
<b>Luxembourg</b>		Pest Control International S.A.	100%
ISS Servisystem Luxembourg S.A.	100%	Serdesa S.A.	100%
<b>Malaysia</b>		<b>Sri Lanka</b>	
ISS Servisystem Sdn. Bhd.	30%	ISS Abans Environmental Services (PT) Ltd.	50%*
ISS Hygiene Services Sdn. Bhd.	100%	<b>Sweden</b>	
<b>The Netherlands</b>		ISS Sverige AB	100%
ISS Holding Nederland B.V.	100%	CarePartner Sverige AB	49%**
De Punt B.V.	100%	FysiologLab i Stockholm AB	100%
Drielanden Groep B.V.	100%	ISS Ecuvo Sverige AB	100%
Het Groene Team Vof	50%	ISS Health Care AB	100%
ISS Arbo Plus B.V.	100%	ISS Industri- och Skadeservice AB	100%
ISS Catering Services B.V.	100%	ISS Rehab AB	100%
ISS Damage Services B.V.	100%	ISS TrafficCare AB	100%
ISS Food Hygiene B.V.	100%	Lemonia AB	100%
ISS Hospital Services B.V.	100%	M & M Medical Holding AB	100%
ISS Integrated Services B.V.	100%	Teleoffice Call Center Scandinavia AB	100%
ISS Nederland B.V.	100%	<b>Switzerland</b>	
ISS Reception Services B.V.	100%	ISS Holding AG	100%
Muraka Groep B.V.	100%	Anderhub AG	100%
<b>Norway</b>		Deratex SA	100%
ISS Norge AS	100%	E. Fritz AG	100%
ForvaltningsCompagniet AS	51%	Ewald Benz AG	100%
Grødeggaard AS	48%**	ISS Aviation AG	72%
Hero Mottak og Kompetanse AS	50%*	ISS Aviation SA	72%
House of Coffee Norge AS	100%	ISS Bernasconi SA	100%
ISS Serveringspartner AS	100%	ISS COMMultiservice AG	80%
ISS Skaaret AS	100%	ISS Facility Services AG	100%
ISS Skadeservice AS	100%	ISS Facility Services AG (Liechtenstein)	100%
PSP-Procuro Servicepartner AS	100%	Ketol AG	100%
Raufoss Beredskap AS	51%	<b>Thailand</b>	
Serveringspartner AS	50%	ISS Facility Services Co. Ltd.	100%
Telenor Renhold og Kantine AS	50%	<b>UK</b>	
Vaktmester Kompaniet AS	100%	ISS UK Ltd.	100%
<b>Poland</b>		Fernley Airport Services Ltd.	49%**
ISS Multiservice Sp. z o.o.	100%	ISS Damage Control Limited	100%
<b>Portugal</b>		ISS Damage Control (Scotland) Limited	76%
ISS Servisystem Serviços de Limpeza, Lda.	100%	ISS Facility Services Ltd.	100%
<b>Romania</b>		ISS Finance and Investment (Bishop Auckland) Ltd.	100%
3D Romania S.A.	98%	ISS Food Hygiene Ltd.	100%
<b>Singapore</b>		ISS Mediclean Ltd.	100%
ISS Servisystem Pte. Ltd.	100%	Spectrum Ltd.	100%
Essential Services Pte. Ltd.	100%	Spectrum Franchising Limited	100%
ISS Hygiene Services Pte.,Ltd.	100%	Waters Landscape Plc	100%
ISS Sanitation Services Pte. Ltd.	100%		
Serve1st Services Pte.,Ltd.	100%		
<b>Slovakia</b>			
ISS Servisystem s.r.o.	100%		
ISS Automotive s.r.o.	100%		
ISS Security s.r.o.	100%		

<sup>1)</sup> Undertakings of immaterial interest are left out.

\* Joint Venture

\*\* Associate