SODEXHO ALLIANCE SA
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

For the month of July, 2006

Commission File Number: 001-31274

SODEXHO ALLIANCE, SA

(Translation of registrant's name into English)

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78180 Montigny - le - Bretonneux
France
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F __X__ Form 40-F___

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SODEXHO ALLIANCE, SA

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1. **FINANCIAL REPORT FOR THE FIRST HALF OF FISCAL 2006**

Item 1

I. FINANCIAL REPORT FOR THE FIRST HALF OF FISCAL 2006

Highlights

Sodexho Alliance has applied the IFRS standards since September 1, 2005. Comparative amounts have been presented using the same standards.

(million euros)	First half 2004-2005	First half 2005-2006	Change excluding exchange effect	Exchange effect (1)	Total change
Revenues	5,902	6,546	+ 5.5%	+5.4%	+10.9%
Operating income	210	315	+ 43.3%	+6.7%	+50.0%
Operating income less U.S. litigation	270	315	+ 11.4%	+5.3%	+16.7%
Financial income	(55)	(52)	- 8.2%	+2.9%	- 5.3%
Income taxes	(57)	(102)	+ 70.9%	+8.4%	+79.3%
Group net income	94	160	+ 62.5%	+8.4%	+70.9%
Group net income excluding U.S. litigation	134	160	+ 11.6%	+8.4%	+20.0%

(1) The exchange difference is now determined by applying average exchange rates for the preceding financial year to amounts for the current financial year.

The strengthening of the US dollar against the euro generated positive currency effects in our consolidated financial statements for the first time for three years and resulted in a 2% increase in the balance sheet total, a 5% increase in revenues, a 7% increase in operating profit and an 8% increase in Group net income.

Organic growth in revenues, at a constant consolidation scope and excluding currency effects was 5.5% compared to 4% for the prior period.

For better comparison, operating income and Group net income for the prior fiscal year are also presented excluding the impact of settlement of the U.S. litigation. The consolidated financial statements for the first half of 2004-2005 included a provision for EUR 60 million for the estimated cost of the resolution of this litigation. Thus, excluding exchange differences:

- operating income was EUR 315 million, up 11.4%;
- Group net income was EUR 160 million, up 11.6%.

Analysis of changes in revenues and operating income by activity

Revenues by activity *(million euros)*	First half 2005-2006	First half 2004-2005	Change at current exchange rate %	Change at constant exchange rate %
Food and Management Services				
	2,919	2,586	12.9%	4.0%
North America	2,111	1,984	6.4%	6.4%
Continental Europe	663	640	3.6%	2.1%
United Kingdom and Ireland	678	555	22.2%	10.6%
Rest of the world	**6,371**	**5,765**	**10.5%**	**5.2%**
Total				
Service Vouchers and Cards	**178**	**140**	**27.2%**	**16.9%**
Elimination of intra-group revenues	- 3	- 3		
Total	**6,546**	**5,902**	**10.9%**	**5.5%**

For the first half of fiscal 2006, the Group derived 79% of revenues from Food and Management Services, 18% from Facilities Management and 3% from the Service Vouchers and Cards activity.

Operating income by activity *(million euros)*	First half 2005-2006	First half 2004-2005	Change at current exchange rate %	Change at constant exchange rate %
Food and Management Services				
North America (excluding U.S. litigation)	152	129	16.9%	7.8%
Continental Europe	103	102	1.3%	1.5%
United Kingdom and Ireland	17	11	55.9%	53.6%

Rest of the world	11	12	- 6.0%	- 17.2%
Total	**283**	**254**	**11.3%**	**6.1%**
Service Vouchers and Cards	**53**	**34**	**54.9%**	**43.5%**
Corporate expenses	**(21)**	**(18)**		
Total excluding U.S. litigation	**315**	**270**	**16.7%**	**11.4%**

During the first half of fiscal 2006, activities outside the euro zone represented 70.4% of revenues (of which 43.5% were in US dollars) and 63.2% of operating income (of which 40.7% were in US dollars).

Food and Management Services

Organic revenue growth for Food and Management Services was 5.2% for the first half of fiscal 2006, of which 5.2% was in Business and Industry, 8.2% in Healthcare and Seniors, and 2.4% in Education.

Analysis by region

North America

Revenues in North America were EUR 2.9 billion with an organic growth rate of 4.0% . Business and Industry revenues were up 1.8% as a result of the combination of several positive factors, including a better adaptation of our service offerings to the needs of our customers and strength in catering activites over the year end holiday period. These factors significantly offset the effect of staff reductions at certain of our large clients.

In Defense, Sodexho teams continue to tailor services to the changing needs of the U.S. Marine Corps in the United States. This close partnership over several years has contributed to constructive dialogue with this client regarding contractual modifications pursuant to federal regulations.

The excellent organic growth rate of 7% for the Healthcare and Seniors segment was led by the opening of contracts signed last year. In addition, revenues on existing sites benefited from the expansion of our range of services.

The increase in Education was close to 3%. By consistently seeking solutions most adapted to the expectations of clients and customers, teams were able to increase sales on existing sites in both universities and schools, in line with the Group's focus on accelerating organic growth. However, performance was less robust in the public schools market, where the conditions for renewing certain contracts proposed at the end of the prior fiscal year did not meet the Group's standards for pursuing profitable growth.

Sodexho won a number of major contracts. Examples include: Amgen, Dow Chemical, Pfizer, Val Dosta State University and PBI Regional Medical Center.

Operating income was EUR 152 million, substantially higher than for the prior year period, which included a provision for EUR 60 million in connection with the resolution of the U.S. litigation.

Excluding this provision and currency effects:

- the increase was 7.8%, mainly the result of improved gross margin in the Healthcare and Seniors and Education segments;

- operating margin was 5.2%, compared with 5.0% for the first half of the prior fiscal year.

Continental Europe

In Continental Europe, growth in revenues in the Business and Industry segment was 7.1% and benefited from the signing of new contracts, notably in Central Europe, Spain and Germany as well as strong development in leisure and tourist activities in the Paris area. The ramping up of services in new correctional facilities resulting from Public/Private Partnership arrangements in France also contributed strongly. However, the business climate in Western Europe remains challenged by client staff reductions and site closures.

Revenues increased by 7.7% in Healthcare and Seniors, driven by the opening of several large contracts signed during the prior fiscal year. In addition, the retention rate improved and service offerings continued to expand.

The desire to remain selective, in particular in the public sector, explains the lower revenue growth in Education (+2.2%) .

The most recent successes include BP and Bristol Myers Squibb for Facilities Management in France, Deutsche Telekom in Germany, the Netherlands Ministry of Finance, a framework contract with the Suren Group, the leading senior residential accommodation group in France, the Cruces hospital in Spain and several schools in Nyköping in Sweden.

Operating income of EUR 103 million, a modest improvement over the prior year period, was hampered by continuing headcount decreases, most particularly in Northern Europe as well as the impact of start-up expenses of certain significant new contracts signed last year in France.

As a result, the operating margin decreased, from 5.1% to 4.9% .

United Kingdom and Ireland

In the United Kingdom and Ireland, Business and Industry segment revenues have returned to positive growth in the first half of the year as a result of activity in Correctional Facilities and Defense. Several important contracts signed during the first half confirm Sodexho's leadership position in the Defense market.

Increased activity on several PFI contracts signed in prior years contributed to the growth of nearly 20% in Healthcare and Seniors.

Over 50% of revenues in the Defense, Healthcare and Correctional Facilities segments in the United Kingdom and Ireland are from Facility Management.

Recent successes include the Allenby Connaught, Catterick and North of England garrisons, as well as MBNA and Pfizer.

In the **United Kingdom and Ireland**, operating profit was 17 million euro and in line with the Group's recovery strategy. This represents a significant improvement over the comparable period in Fiscal 2005. Operating income was EUR 17 million. The margin was 2.6%, compared with 1.7% for the prior year period. This increase resulted from improvements in gross margin, in particular in Healthcare and Seniors, Defense and Correctional Services. The progressive return of this subsidiary to profitability is continuing in line with the action plans implemented over the last three years.

Rest of the world

Organic growth for the rest of the world was 10.6% .

In Latin America, improved client retention and development in the mining sector and in Healthcare led to an acceleration of organic growth, both in food service and in Facility Management.

The Remote Sites activity remains strong in the oil and gas sectors despite the impact of the hurricanes in the Gulf of Mexico at the beginning of the fiscal year.

In China, the Group continues to expand at a heightened pace while in Australia, Facilities Management services are progressing.

New clients included the Cargill Group in Argentine and Brazil, and Schincariol and Altapharma in Brazil, The Naval Hospital in Chile, Shanghai Diesel Engine Co and Shanghai No. 1 Hospital Songjiang in Chine and Exxon Mobil and BHP Billiton in Australia have placed their trust in Sodexho.

Operating income amounted to EUR 11 million, slightly lower than the first half of the prior fiscal year. This is explained in particular by:

- a lower level of activity in the Gulf of Mexico, as a result of the hurricanes at the beginning of the year, and termination of a number of Remote Site infrastructure contracts in Australia;

- continued development investment, in particular in terms of human resources, in Asia and Latin America to cater for the potential of these markets.

The operating margin was 1.6%.

Service Vouchers and Cards

Organic growth in revenues reached 16.8%, a significant increase as compared to the first half of fiscal 2005. This growth resulted from strong issuance volume of EUR 3.2 billion which rose by 15.9% (excluding the effects of consolidation scope and exchange rates).

Growth in traditional services such as Restaurant Pass and Food Pass explained the increase, along with strong demand for Gift Pass during the year end holiday period.

The Group continued to innovate, with the creation of new services such as:

- Childcare vouchers in the United Kingdom, where Sodexho was named Childcare Voucher Provider of the Year for 2006 by the British publication Employer Rewards and Benefits.
- In Chile, with the Pass Fosis, which facilitates the creation of businesses by the unemployed.

Sodexho Pass has succeeded in convincing new clients of the quality of its solutions to motivate and retain their staff. Examples include: Siemens, Case New Holland and National Secretariat for Social Protection in Brazil, Hindustan Petroleum Corporation and Sasken in India, Swatch and DHL in China, Fujitsu in Germany and the Alliance Nationale des Mutualités Chrétiennes in Belgium. Furthermore, the development of new services continues with, in particular, the Pro-Family Program for the province of Catamarca in Argentina, Childcare Pass in Great Britain (EADS) and Flexi Pass in the Czech Republic (GE Money Bank, Johnson & Johnson or Pfizer).

Operating income amounted to EUR 53 million, a significant increase (excluding exchange differences) over the prior year period. This good performance primarily resulted from the strong growth of the activity, with minimal incremental increase in expenses, which are substantially fixed, in particular in Latin America.

Operating margin rose from 24.4% to 29.8%, or approximately 1.9% of the issuance volume.

Income tax

The tax rate increased from 37% in the first half of fiscal 2005 to 38.5% in the first half of fiscal 2006.

Group net income

Group net income was EUR 160 million, up 70.9% .

Excluding the provision for the U.S. litigation during the prior period, Group net income increased by 20% (11.6% excluding exchange differences).

Adoption of IFRS

The Group has been applying IFRS since September 1, 2005.

The principal accounting elections relating to first-time application of IFRS, and the most significant impacts are in line with the information provided in the Reference Document for fiscal 2005.

The main impacts are as follows:

- the Group has opted to present its income statement by function, as permitted by standard IAS 1;
- the absence of the notion of exceptional income in the IFRS standards has led to the reclassification of a number of transactions to operating or financial income;
- stock option plan expenses are reported in operating income in accordance with IFRS 2;
- goodwill is no longer amortized.

The impact on consolidated shareholders' equity of the application of IFRS is low (a reduction of about 3.5% as of August 31, 2005). In addition, the more restrictive definition of cash and cash equivalents required by IFRS, has led the Service Vouchers and Cards activity in particular to report the following as current financial assets:

- investments in financial instruments with maturities less than 3 months, and
- restricted cash.

A detailed presentation of the impact of the transition to the IFRS standards is provided in the notes to the consolidated financial statements for the first half of fiscal 2006.

Financial position of the Group as of February 28, 2006

The following table presents the main cash flows.

	Half year ended February 28,	
	2006	*2005*
	(euro in millions)	
Net cash flows from operating activities	**107**	**255**
Net cash flows used in investing activities	**(131)**	**(79)**
Net cash flows used in financing activities	**(182)**	**(124)**
Net cash flows	**(206)**	**53**

Excluding the impact of the U.S. litigation and currency effects, income for consolidated subsidiaries increased by 14%.

The change in working capital affected the net cash flow from operating activities, which typically occurs during the first half. However, the decline was more marked than during the first half of fiscal 2005. This is explained by:

- stable accounts receivable compared with an improvement during the first half of fiscal 2005;

- an increase in financial investments with maturities greater than three months in the Service Vouchers and Cards activity, resulting both from the growth of this activity and the pursuit of better returns; and

- the offset of the substantial orders recorded at the end of fiscal 2005 for the Service Vouchers and Cards activity.

The rapid growth in Latin America and return to profitability in the United Kingdom are reflected in an increase in income tax paid.

Consequently, net cash flows from operating activities were EUR 107 million.

Net cash flows used in investing activities were EUR 131 million, with EUR 105 for net tangible investments (1.6% of revenues), and EUR 26 million for financial investments. Sodexho acquired a 55% interest in the Paris Lido during the first half, and also repurchased a number of minority interests in various subsidiaries.

Net cash flows used in financing activities were negative at EUR 182 million, due to the repayment of borrowings.

Financial liabilities amounted to EUR 1,799 million as of February 28, 2006, principally include two bond issuances in euro for a total of EUR 1,362 million, and borrowings in US dollars for EUR 356 million. Other borrowings, capital leases, and derivative financial instruments comprise the balance of this liability.

Cash and cash equivalents net of bank overdrafts amounted to EUR 741 million. Investments in financial instruments with maturities greater than three months, and restricted cash for the Service Vouchers and Cards activity totaled EUR 375 million.

The Group's operating cash position (including current financial assets and cash and cash equivalents) amounted to EUR 1,116 million, of which EUR 749 million related to the Service Vouchers and Cards activity.

Net debt as of February 28, 2006 was EUR 683 million, representing only 31% of Group shareholders' equity.

Fixed rate borrowings as of the end of the period represented 79% of debt, and our average interest cost was 5.7% . The Group has unused bank credit facilities totaling EUR 654 million. Off balance sheet commitments as of February 28, 2006 (see note x to the consolidated financial statements) were EUR 246 million, or 11% of Group shareholders' equity.

Fiscal 2006 outlook

At the May 9, 2006 Board Meeting, Michel Landel, Sodexho CEO, reported to the members of the Board on the Groups activity during the first half of the year and the increase in income. This performance highlights the relevance of actions undertaken over the past year, including the "Clients For Life®" program, and marketing actions designed to increase sales on existing sites. Mr. Landel reaffirmed that the Executive Committee was continuing its efforts to improve operating efficiency and competitiveness in accordance with Sodexhos strategy.

He stated that although organic revenue growth and increase in income could be less pronounced during the second half of fiscal 2006, he was entirely confident in the Groups expansion over the coming years.

Following these discussions, the Board confirmed the high end of the targets set in November 2005 for fiscal 2006:

- organic revenue growth of about 5%;

- increase in operating income, excluding exchange differences, of about 6%.

Ambition 2015

Developed two years ago by 350 managers from around the world to unite the Group s 324,000 employees around a clear vision for the future and to take advantage of the substantial growth potential of its markets, Sodexho s Ambition 2015 is to be the premier global outsourcing expert in quality of life services. Commenting on this strategic vision, Sodexho CEO Michel Landel said, Mobilized around this collective goal, our ambition for 2015 is to double the Group s revenues and triple operating income."

II. SODEXHO ALLIANCE CONSOLIDATED FINANCIAL STATEMENTS AS OF FEBRUARY 28, 2006

1. Consolidated income statement

(in millions of euro)	Notes	Half year 2005-2006	%Revenues	change	Half year 2004-2005
Revenue	**2.21. et 3.**	**6 546**	**100%**	10,9%	**5 902**
Cost of sales		(5 610)	-85,7%		(5 068)
Gross profit		**936**	**14,3%**		**834**
Sales department costs	4.1.	(75)	-1,2%		(66)
General and administrative costs	4.1.	(547)	-8,4%		(499)
Other operating income and charges	4.1.	1			(59)
Operating profit before financing costs	**3.**	**315**	4,8%	50,0%	**210**
Net financing costs	4.2.	(52)	-0,8%	-5,3%	(54)
Share of profit of associates	3.	3	0,1%		(2)
Profit before tax		**266**	4,1%	72,8%	**154**
Income tax expense	4.3.	(102)	-1,6%		(57)
Result from discontinued operations		-			-
Profit for the period		**164**	2,5%		**97**
Minority interests		4	0,1%		3
Group profit for the period		**160**	2,4%	70,9%	**94**
Earnings per share (in euro)	**2.22. et 4.4.**	**1,01**		70,9%	**0,59**
Diluted earnings per share (in euro)	**2.22. et 4.4.**	**1,01**		70,9%	**0,59**

2. Consolidated balance sheet

ASSETS (in millions of euro)	Notes	February 28, 2006	August 31, 2005	February 28, 2005
Non-current assets				
Property, plant and equipment	2.6., 2.7., 2.8. and 4.5	424	406	401
Goodwill	2.4., 2.8. and 4.6.	3 803	3 711	3 506
Other intangible assets	2.5., 2.8. and 4.7.	244	225	205
Associates	2.3.2. and 4.8.	29	26	23
Financial assets	2.11. and 4.10.	74	74	80
Other non-current assets	4.12.	22	18	17
Deferred tax assets	2.19. and 4.20.	244	225	199
Total non-current assets		**4 840**	**4 685**	**4 431**
Current assets				
Financial assets	2.11. and 4.10.	6	7	6
Derivative financial instruments	2.11. and 4.16.	37	40	49
Inventories	2.9. and 4.11.	180	176	177
Income tax		32	19	28
Trade receivable	4.12.	2 173	1 750	1 866
Restricted cash and financial assets related to the Service Vouchers and Cards activity	2.11. and 4.10.	375	326	296
Cash and cash equivalent	2.12. and 4.13.	822	949	852
Total current assets		**3 625**	**3 267**	**3 274**
Total assets		**8 465**	**7 952**	**7 705**

LIABILITIES AND EQUITY

(in millions of euro)	Notes	February 28, 2006	August 31, 2005	February 28, 2005
Shareholders' equity				
Capital		636	636	636
Share premium		1 186	1 186	1 186
Undistributed net income		667	708	715
Consolidated reserves		-293	-467	-761
Total group shareholders' equity		**2 196**	**2 063**	**1 776**
Minority interests		17	18	16

Total shareholders' equity	**2.14., 2.18. and 4.14.**	**2 213**	**2 081**	**1 792**
Non-current liabilities				
Borrowings	2.13. and 4.15.	1 727	1 891	1 684
Employee benefits	2.16. and 4.17.	314	308	314
Other liabilities	4.19.	96	82	64
Provisions	2.15. and 4.18.	60	53	52
Deferred tax liabilities	2.19. and 4.20.	36	50	48
Total non-current liabilities		**2 233**	**2 384**	**2 162**
Current liabilities				
Bank overdraft		81	21	48
Borrowings	2.13. and 4.15.	107	85	408
Derivative financial instruments	2.11. and 4.16.	2	2	4
Income tax		129	84	103
Provisions	2.15. and 4.18.	90	97	87
Trade and other payable	4.19.	2 465	2 197	2 143
Vouchers payable	2.17.	1 145	1 001	958
Total current liabilities		**4 019**	**3 487**	**3 751**
Total equity and liabilities		**8 465**	**7 952**	**7 705**

3. Consolidated statement of cash flows

(in millions of Euro)	Notes	Half year 2005-2006	Half year 2004-2005
<u>Operating activities</u>			
Operating profit before financing costs		**315**	**210**
Non cash items			
Depreciations		96	92
Provisions		(5)	61
Losses (gains) on disposal and other, net of tax		2	5
Dividends received from associates		1	0
Change in working capital from operating activities		**(191)**	**(39)**
change in inventories		(2)	(22)
change in accounts receivable		(393)	(290)
change in supplier and other liabilities		133	120
change in Service Vouchers and cards to be reimbursed		119	111
change in financial assets related to the Service Vouchers and Cards activity		(48)	42
Interests paid		(23)	(20)
Interests received		9	0
Income tax paid		(97)	(54)
<u>Net cash provided by operating activities</u>		**107**	**255**
<u>Investing activities</u>			
Acquisitions of fixed assets		(108)	(80)
Fixed assets disposals		3	13
Change in financial investments		1	(8)
Acquisitions of consolidated subsidiaries		(27)	(1)
Disposals of consolidated subsidiaries		0	(3)
<u>Net cash used in investing activities</u>		**(131)**	**(79)**
<u>Financing activities</u>			
Dividends paid to parent company shareholders		0	0
Dividends paid to minority shareholders of consolidated companies		(5)	(3)
Change in shareholders' equity		18	2
Proceeds from borrowings		3	73
Repayment of borrowings		(198)	(196)
<u>Net cash used in financing activities</u>		**(182)**	**(124)**
Increase in net cash and cash equivalents		**(206)**	**52**
Net effect of exchange rates on cash		19	(7)
Cash and cash equivalents at beginning of period		928	759
Cash and cash equivalents at end of period	4.13.	**741**	**804**

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4. Statement of recognized income and expense

(in millions of euro)	**Half year 2005-2006**	Half year 2004-2005
Financial instruments	-2	5
Change in cumulative translation adjustment	68	-157
Actuarial gains / losses related to post employment benefits		
Profit accounted directly in equity	**66**	**-152**
Profit for the period	164	97
Total profit for the period	**230**	**-55**
Attributable to:		
Holding equity holders	226	-58
Minority interests	4	3

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Sodexho Alliance is domiciled in France and its headquarters are located in Montigny-Le-Bretonneux.

The half year consolidated financial statements of the Group were approved by the Board of Directors on May 9, 2006.

1. Highlights

Sodexho acquired an interest in the Paris Lido cabaret on February 13, 2006 in connection with its strategy of expanding its event-driven activities, which represented nearly 3% total annual revenues for fiscal 2005. In France this activity includes "Les Bateaux Parisiens," restaurant services for racetracks, the Rolland Garros complex and other public sites. The Lido generated revenues of EUR 35 million in 2005.

2. Accounting principles

2.1. Basis of preparation of the financial statements

In application of European Union rule 1606/2002 of July 19, 2002, the Groups consolidated financial statements as of February 28, 2006 have been prepared for the first time in accordance with international financial reporting standards (IAS/IFRS).

Sodexho has prepared an opening balance sheet at September 1, 2004, in accordance with the measures stipulated in IFRS 1, First-time application of international financial reporting standards, and fiscal 2005 financial statements using IFRS as its primary basis of accounting. Note 6 provides the main impacts of transition to the IFRS reported in the IFRS opening balance sheet as of September 1, 2004, and the income statement for the the year ended August 31, 2005.

Interim consolidated financial statements at February 28, 2006 have been prepared in accordance with IAS 34.

Certain of these standards may evolve or be modified between now and August 31, 2006, the retroactive application of which could result in modifications to the fiscal 2005 consolidated financial statements presented herein, as well as the financial statements for the first half of February 28, 2006.

The Group has decided to apply as of August 31, 2005 the revised IAS 19, which allows for actuarial gains and losses to be recorded directly in shareholders equity.

The Group expects to early adopt IFRIC 4 as of August 31, 2006. At the present time, this interpretation relates to client investments. Application of this interpretation is not expected to have a significant impact on the Group financial statements.

The financial statements of consolidated subsidiaries are prepared in accordance with accounting principles as defined by the Group under IFRS. The majority of fully consolidated companies close their financial statements as of August 31, with a half-year closing on February 28. For those companies having different closing dates, financial statements as of August 31 and February 28 are prepared to report transactions for the period from September 1.

Group consolidated financial statements have been prepared following the historical cost principle, with the exception of financial assets, derivative financial instruments and services received in connection with a transaction for which payment is in shares and measured at fair value. The accounting principles and methods applied by the Group are described below.

Amounts in tables are expressed in million euros.

2.2. Use of estimates

The preparation of financial statements in accordance with the IFRS standards requires Group and subsidiary management to make estimates and assumptions which affect the amounts reported for assets and liabilities including contingent liabilities as of the date of preparation of the financial statements, as well as revenues and expenses for the period. These estimates and assumptions are measured continuously on the basis of past experience, and various other factors considered reasonable in view of current circumstances, and which constitute the basis for assessment of the book value of asset and liability items.

Actual results may differ substantially from these estimates depending on circumstances.

Significant amounts subject to such estimates and assumptions include provisions for litigation (see notes 4.18. and 4.26.), retirement and other employee benefit plan assets and liabilities (see note 4.17.), depreciation of non-current assets (see note 4.9.) and deferred taxes (see note 4.20.).

2.3. Principles and methods of consolidation

2.3.1. Intragroup transactions

Intragroup transactions, balances and underlying losses and unrealized gains between Group companies are eliminated. The unrealized losses are eliminated in the same manner as unrealized gains but only when they do not represent an impairment loss.

2.3.2. Consolidation method

A subsidiary is an entity controlled by Sodexho. Control is deemed to exist when Sodexho has the power to manage directly or indirectly the financial and operating policies of the entity to benefit from its activity. In order to determine whether Sodexho controls the entity, potential exercisable or convertible voting rights are considered. The financial statements of the subsidiaries are included in the consolidated financial statements at such time as control is obtained until it ceases.

Companies over which Sodexho exercises significant influence on financial and operating policies without having the control are recorded using the equity method as soon as the significant influence exists and until it ceases. This influence is presumed in cases where the Group holds between 20% and 50% of voting rights.

The Group holds numerous equity interests in project companies set up under the terms of public-private partnership and private finance initiative (PFI) type contracts. These PFI contracts enable governments to call on the private sector for the design, construction, financing and management of public infrastructures (hospitals, schools, barracks, correctional facilities) with detailed performance criteria. The Group only makes equity and subordinated debt investments in these projects when it is a service provider for the project company. Details of project contracts signed as at February 28, 2006 are provided in note 4.8.

An analysis is performed for each entity to determine whether the Group controls or exerts a significant influence on the entity based on the criteria of IAS 27, IAS 28 and SIC 12.

2.3.3. Foreign currency translation

The exchange rates used are based on the quotations of the Paris Bourse and leading international financial centers.

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies as of the balance sheet date are converted using the closing rate. Exchange differences resulting from this conversion are reported in financial income.

Non-monetary assets and liabilities in foreign currencies reported at historical cost, are converted at the exchange rate in effect on the date of the transaction. Non-monetary assets and liabilities reported at fair value are converted at the exchange rate for the date on which the fair value was determined. Transactions for the period are converted at the exchange rate at the date of the transaction.

Exchange differences relating to monetary items which, in substance, form an integral part of the net investment in a consolidated foreign company, are included in consolidated shareholders' equity until such time as the net investment is sold or realized.

Financial statements denominated in foreign currencies

Countries with stable currency

The corporate financial statements for each consolidated company are reported according to the local economic environment in which each of these companies is operating.

For purposes of consolidation, all assets and liabilities in foreign currencies of consolidated companies are translated into the Group's reporting currency (euro) at the closing rate, and the income statement is translated at the average exchange rate for the period. The resulting exchange differences are reported in shareholders' equity as a "cumulative translation adjustment".

Statutory monetary adjustments are maintained in the financial statements of the following subsidiaries: Argentina, Chile, Colombia, Mexico, Turkey and Venezuela. Residual exchange differences resulting from the monetary adjustment and the use of closing exchange rates are reported in shareholders' equity.

Countries with hyperinflationary economies

For these countries, the difference between net income converted at the average rate and net income converted at the closing rate is reported in financial income.

As of February 28, 2006, no country in which the Group is operating met the criteria or qualification as having a hyperinflationary economy.

2.4. Goodwill

The purchase method is used to account for acquisitions of subsidiaries by the Group. The cost of acquisition corresponds to the fair value of acquired assets, of equity instruments issued and of acquired or considered liabilities as of the date of the acquisition, increased by the costs directly attributable to the acquisition.

On first-time consolidation of a subsidiary or equity interest, the Group measures all identifiable items acquired. In accordance with IFRS 3, changes to measurement of identifiable assets and liabilities may occur within 12 months following the date of acquisition.

This measurement is made in the currency of the company acquired.

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2.4.1. Goodwill

The residual difference corresponding to the excess of acquisition cost in relation to Group interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the company acquired at the date of acquisition, is reported as a balance sheet asset on the "Goodwill" line.

These goodwill amounts are not amortized, but are subject to impairment tests immediately if there is evidence of impairment, and at least once per year. Impairment test procedures are described in note 2.8. Where they exist, impairment amounts reported in the income statement are irreversible.

2.4.2. Negative goodwill

This represents the excess of the Group interest in the fair value of identifiable assets, liabilities and contingent liabilities in the company acquired at date of acquisition.

Negative goodwill is recognized immediately in the income statement during the period of acquisition.

2.5. Intangible assets

Intangible assets acquired separately are measured initially at their acquisition cost in accordance with IAS 38. Intangible assets acquired in connection with a business combination, and which can be measured on a reliable basis, are controlled by the Group and can be separated or result from legal or contractual rights, are reported at their fair value separately from goodwill. Subsequent to initial recognition, intangible assets are measured at their acquisition cost less accumulated amortization and any impairment losses recognized.

Intangible assets other than brands are considered finite life assets, and are amortized by the straight-line method over their expected useful life.

Costs related to the acquisition of licenses or software are recorded as an asset based on the costs incurred to acquire and implement the software. These costs are amortized over their expected useful life.

Costs incurred subsequent to the initial recognition of an intangible asset are recorded as part of the intangible asset only if they increase the future economic benefits of the specific asset. Other expenses are recorded in the income statement as incurred.

2.6. Property, plant and equipment

In application of IAS 16, property, plant and equipment items are recognized at their acquisition cost, less accumulated amortization and impairment losses, except for the land, which is recorded at acquisition cost less any impairment loss. Acquisition cost includes expenses directly related to the acquisition of the asset, and the estimated cost of the obligation to refurbish part of the asset where appropriate.

Costs incurred subsequent to the initial recognition of the asset are included in the net book value of the related asset or recognized as a separate component if it is probable that future economic benefits associated with these costs will benefit the Group and the cost of this asset is reliably estimated. All other costs of maintenance or repairing assets are expensed as incurred in the income statement except for those which increase the productivity or extend the useful life of the asset, which are included in the net book value of the asset.

Property, plant and equipment are depreciated over their useful life, in accordance with the component approach. Straight-line depreciation is considered appropriate.

The depreciation periods generally used by the Group are as follows:

- Buildings	20 to 30 years
- General fixtures and fittings	3 to 10 years
- Plant and equipment	3 to 8 years
- Vehicles	4 years
- Ships and pontoons (depending on the component)	5 to 15 years

Carrying amounts for property, plant and equipment items are subject to impairment tests, where events or changes in their utilization indicate that the carrying amount may not be recoverable.

2.7. Leases

The Group accounts for lease contracts where Sodexho is the lessee in accordance with IAS 17 "Leases".

Lease agreements which transfer substantially all of the risks and benefits inherent in ownership of the leased asset, are recognized as capital leases as follows:

- At contract inception an asset is recognized on the balance sheet in the amount of the lower of the fair value of the asset leasedand the present value of the future minimum lease payments to be made pursuant to the terms of the lease;

- the related liability is recorded in financial borrowings;

- lease payments are apportioned between the financial expense and the reduction of the outstanding liability, so as to produce a constant periodic interest rate on the remaining balance of the liability.

Assets related to capital lease contracts are depreciated or amortized over the shorter of the lease term and their useful life, if it is not reasonably certain that Sodexho will obtain ownership of the asset by the end of the lease term.

Lease contracts whereby the lessor bears substantially all of the risks and rewards incidental to ownership of the leased asset, are classified as operating leases. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

2.8. Depreciation of assets

2.8.1. Depreciation of assets with finite useful lives

Property, plant and equipment and intangible assets having a finite useful life are subject to impairment tests as and when evidence of impairment exists. Impairment losses recognized in the income statement are reversible.

2.8.2. Depreciation of assets with infinite useful lives

Goodwill is considered to have an indefinite useful life, and is subject to impairment testing when there is an indication that it may be impaired, and at least on an annual basis.

An impairment loss is recognized in the income statement when the carrying value of the asset or the related Cash Generating Unit (CGU) exceeds is recoverable amount. The recoverable amount of an asset is the higher of its fair value less selling costs and its value in use.

Assets that do not generate cash inflows that are largely independent of those from other assets are tested for impairment as part of the CGU to which they belong.

Goodwill impairment tests are performed on each CGU, which for the Group are primarily identified by activity and country. The CGU includes goodwill, fixed and intangible assets and net working capital.

The value in use of a CGU is determined on the basis of cash flows after income taxes in the three-year plans prepared by management, and is extrapolated beyond this horizon. Group and local management have forecasted the operating margin based on actual performance and expected market growth. The growth rate used beyond this period represents the growth rate for the related activities and geographical regions. Cash flows are discounted on the basis of the CGU's average cost of capital.

An impairment loss recorded on a CGU is allocated first to the reduction of goodwill and then to the reduction of other assets of the entity on a prorated basis.

2.8.3. Reversal of impairment

An impairment loss on goodwill is not reversible.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

2.9. Inventories

Inventories are measured at the lower of their cost and net realizable value using the FIFO (First in, first out) cost formula.

2.10. Trade and other receivables

Trade and other receivables are measured at fair value on initial recognition and are subsequently recognized net of the allowance for doubtful accounts as appropriate.

An allowance for doubtfull accounts is recognized when it is determined that the amounts due pursuant to the terms of the original contract are not recoverable.

2.11. Financial instruments

Financial assets and liabilities are recognized and measured iin accordance with IAS 39 "Financial instruments: recognition and measurement".

2.11.1. Financial assets

Financial assets are classified into three main categories for measurement and recognition as defined in IAS 39:

- **Loans and receivables** include deposits and bonds, and loans made to unconsolidated companies. These financial assets are recognized in the balance sheet at amortized cost, which is generally the same as the acquisition cost, as there typically are no significant acquisition costs for these investments. If there is evidence of decline in value, an impairment test is performed on these financial assets. An impairment is recorded if the carrying amount is greater than the expected recoverable value.

- **Financial assets at fair value through profit or loss** include other financial assets held for trading and acquired for short-term disposal. Any subsequent change in the fair value of these assets is reported in financial income. An impairment is recorded through the income statement if the carrying amount is higher than the expected recoverable value. These impairment charges may be reversed if the increase in the recoverable value may be objectively linked to an event occurring after its recording.

- **Available for sale assets** include equity interests, shares, marketable securities with maturities greater than three months and restricted cash. Upon initial recognition, assets held for disposal are measured at fair value, and changes in fair value are reported directly as a component of shareholders' equity. When financial assets held for disposal are sold or depreciated, the cumulative adjustment to their fair value reported under shareholders' equity is transferred to the income statement.

2.11.2. Derivative financial instruments

Group policy is to finance acquisitions in the currency of the acquired company, generally at fixed rates of interest. The majority of borrowings negotiated at variable rates of interest has been converted to fixed rates by the use of interest rate swaps. Similarly, where acquisition financing is negotiated in a currency other than that of the acquired entity, currency swaps are generally contracted.

As required by IAS 39, these derivative financial instruments are initially recognized in the balance sheet in current financial assets or liabilities at their fair value. Subsequent changes in fair value are reported in income, except for derivatives that qualify for cash flow hedge accounting.

For cash flow hedge instruments, the necessary documentation is prepared at inception and updated at each close. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity until the underlying asset or liability is realized at which time it is recognized in the income statement. The ineffective portion is recognized immediately in the income statement.

2.11.3. Commitments to purchase minority interests

In connection with the application of IAS 32, the Group has recognized in the consolidated balance sheet firm commitments to buy out minority investors. In the absence of any specific IFRS guidance on whether the matching entry should be debited, the Group has opted to eliminate the minority interests in full and to recognize the balance as goodwill.

As such firm commitments to buy out minority investors are recognized as follows under IFRS:

- a financial liability is recordeed for the amount to be paid;

- the expected goodwill is reported in the balance sheet;

- the minority interests share of income is reclassified to Group share.

Subsequent changes to the amount to be paid are applied to the goodwill balance.The finalization of guidance currently under review by the IASB may result in a modification to the treatment described above.

2.11.4. Bank borrowings and bond issues

All borrowings, including bank credit facilities and overdrafts, are initially reported at the fair value of the amount received, reduced by transaction costs directly attributable to the transaction. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest rate method.

2.12. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and short-term investments in monetary instruments with maturities of less than three months from their date of acquisition or may be withdrawn at any time with no significant risk of loss in value.

2.13. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalized as part of the cost of the underlying asset as permitted by IAS 23. Borrowing costs that are not directly related to an asset reduce the related borrowings balance and are recorded using the amortized cost method over the term of the related debt in accordance with IAS 39.

2.14. Sodexho treasury shares

Sodexho shares held by the parent company and/or Group companies, are reported at their acquisition value as a reduction of consolidated shareholders' equity.Gains or losses from acquisitions or disposals of treasury shares are recorded directly in consolidated shareholders' equity, and do not affect income for the period.

2.15. Provisions

A provision is recorded if an entity has a legal or constructive obligation as of the close of a period, where it is probable that a cash outflow will be required and where the related amount can be reliably estimated.

Provisions primarily arise in connection with commercial, employee-related and tax risks and litigation relating to operations. Provisions are measured in accordance with IAS 37 using assumptions that consider the most likely outcomes.

Where the effect of the time value of money is material, the amount of the provision is determined by computing the present value of the expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Loss making contracts

If a Group entity has a contract that is onerous, a provision is measured and recognized.

2.16. Employee benefits

2.16.1. Short-term employee benefits

Group employees receive short-term benefits such as vacation pay, bonuses, maternity leave and other benefits (other than severance pay), payable within 12 months of the end of the related service period.

These benefits are reported in current liabilities.

2.16.2. Post-employment and other long-term employee benefits

The Group applies IAS 19 in the measurement and recognition of post-employment and other long-term employee benefit obligations. Consequently:

- the amount of the contributions to defined contribution plans is recognized as an expense;
- measurement and recognition of defined benefit plans is based on actuarial valuations.

The Group has adopted the projected unit credit method as the actuarial method for measuring its retirement benefit obligations pertaining to contracts or agreements in effect in each entity.

Factors used in calculating the obligation include length of service, life expectancy, salary inflation and staff turnover, as well as economic assumptions, some of which may be country- or entity-specific, including the inflation rate, the rate of return on assets and the discount rate.

Sodexho has elected to early adopt the IAS 19 Amendment, as of August 31, 2005. Actuarial gains and losses arising at each annual close are therefore recognized outside of the income statement in shareholders' equity.

To the extent that the benefits are already vested immediately following the introduction of, or changes to benefit levels of, a defined benefit plan, the past service cost is recognized immediately in the income statement. Past service cost that has not yet vested is recognized as an expense on a straightline basis over the average period.

For defined benefit plans, recognition of the various elements relating to the plans is as follows:

- Benefits payable net of plan assets are reported as a non-current liability where the amount payable exceeds the amount of plan assets andunrecognized past service costs.
  Where the fair value of the plan assets exceeds the benefits payable, a net non-current asset is recorded. A net plan asset is only recognized in the balance sheet to the extent that it represents future economic benefits effectively available to the Group and not in excess of the total net amount of unrecognized past service costs plus the present value of the future defined benefit obligation or reductions in future payments.

  The expense reported in the income statement comprises:
  - current service cost, amortization of the past service cost, and the impact of any plan reduction or termination reported in operating income;
  - the discounting effect and expected return on any plan assets in financial income.

The Group participates in multi-employer plans (in particular in Sweden and the USA). The administrators of these plans are not able to provide the information necessary for their recognition as defined benefit plans. These plans are therefore accounted for in the same manner as defined contribution plans.

2.16.3. Other long-term employee benefits

Other long-term employee benefits are measured in accordance with IAS 19. The present value of the defined benefit obligation is recognized as a non-current liability over the related service period. Actuarial gains and losses are recognized immediately in the income statement.

2.17. Service Vouchers and Cards payable

Service Vouchers and Cards payable are accounted for at their fair value which is the face value of the vouchers and cards in circulation or returned to Sodexho, but not yet reimbursed to the affiliates.

2.18. Share-based payments

A number of Group employees receive compensation in the form of share-based payments.

In accordance with the transitional provisions of IFRS 1, only plans with a grant date subsequent to November 7, 2002, for which the equity instruments had not vested as of January 1, 2005, are measured and recognized as employee costs.

Compensation expense related to these plans is recognized in the income statement over the related vesting period, with the offset to shareholders' equity. The amount of expense recognized for each period is determined by reference to the fair value of the options as of the grant date, as computed using the binomial model.

At each balance sheet date, the entity assesses the number of options likely to become exercisable. Where appropriate, the entity recognizes the impact of changes to its estimates in the income statement, with an entry recorded in shareholders' equity.

2.19. Deferred taxes

Deferred taxes are recognized for differences between the carrying amount and the taxable amount for assets and liabilities, using the tax rate expected to be applicable in the fiscal year during which the asset will be realized or the liability settled, on the basis of rates of taxation (pursuant to tax regulations) adopted or substantially adopted as of the closing date.

Taxes relating to items recognized directly in shareholders' equity are recognized in shareholders' equity and not in the income statement.

Residual deferred tax assets on loss carryforwards (after allocation of deferred tax liabilities) are only recognized if their recovery is considered probable.

Deferred tax assets and liabilities are offset if there exists a legally enforceable right of offset, and if they relate to the same taxable entity and the same tax authority.

2.20. Trade and other payables

Trade and other payables are measured at fair value on initial recognition, and subsequently at amortized cost.

2.21. Income statement

2.21.1. Income statement by function

As permitted by IAS 1 "Presentation of financial statements", the Group presentss an income statement by function.

As such operating income now comprises the following items:

- gross profit,
- sales department costs,
- general and administrative costs, and
- other operating income and expenses.

The Group has chosen not to report "exceptional" items in its income statement.

2.21.2. Revenues

In accordance with IAS 18, Group revenues relate to the sale of services in connection with the ordinary activities of the consolidated companies as follows:

- for the Food and Management Services activity, revenues are recognized pursuant to contractual agreements and consider whether we are acting as principal (in the vast majority of cases) or agent in the relationship;
- for the Service Vouchers and Cards activity, revenues include commissions received from clients, commissions received from associates, financial income from the investment of funds generated by the activity, and profit from vouchers and cards not reimbursed.

In accordance with IAS 18, revenues are measured at the fair value of the consideration received or receivable, net of allowances, VAT and other taxes. Furthermore, revenues are recognized where it is probable that future economic benefits will flow to the Groupand can be measured reliably. No revenue is recognized if there is a significant uncertainty about the recovery of the costs incurred or to be incurred to meet the related obligation.

Food service revenues are recognized at the time of delivery of the service.

2.22. Earnings per share

In accordance with IAS 33, earnings per share are determined by dividing profit by the weighted average number of ordinary shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the denominator is increased by the number of potentially dilutive shares, and the numerator is adjusted for all dividends and interest recognized in the period, and any other change in income or expenses that would result from the conversion of the potentially dilutive ordinary shares.

2.23. Assets and disposal groups held for sale

The Group applies IFRS 5, which pertains to the recognition and reporting of assets and disposal groups held for sale.

Non-current assets to which this standard applies are defined as assets the sale of which is considered to be highly probable.

Non-current assets held for sale are measured and recognized at the lower of their carrying amount and their fair value, less costs to sell.Upon meeting the criteria for classification as held for sale, these assets are no longer amortized.

2.24. Cash flow statement

This statement is prepared in accordance with IAS 7.

Changes in the Groups cash position are analyzed in the cash flow statement. The cash position includes the net balance of cash and equivalents, current borrowings and bank credit balances payable on demand which form an integral part of cash management.

3. Segment information

As of February 28, 2006, the Group has two principal activities which constitute its primary segments: Food and Management services and Service Vouchers and Cards.

Other activities are reported in Food and Management Services and mainly include kitchen installation services, event-driven activities and the Remote Site Management included in Rest of the World. None of the other activities individually represents a reportable segment.

3.1. By activity

3.1.1. Income statement information

As of February 28, 2006	**Food and Management Services**								
	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	**Total Food and Management Services**	**Service Vouchers and Cards**	**Holding Companies**	**Elimination**	**Total**
Revenue (non group)	2 919	2 111	663	678	**6 371**	**175**			**6 546**
Sale inter-activity (group)						**3**		**-3**	**0**
Total	**2 919**	**2 111**	**663**	**678**	**6 371**	**178**	**0**	**-3**	**6 546**
Segment operating profit	152	103	17	11	**283**	**53**	**-21**		**315**
Share of profit of associates			2	1	**3**				**3**
Net financing costs									**-52**
Income tax expenses									**-102**
Net income attributable to minority interests									**4**
Group profit of the period									**160**
Amortization and depreciation on segment assets	41	30	10	9	**90**	**6**	**3**		**99**
Other charges without cash	2				**2**				**2**

impact	
Allowance for depreciation on assets	-
Reversal of depreciation on assets	-

As of February 28, 2005	Food and Management Services								
	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	**Total Food and Management Services**	**Service Vouchers and Cards**	**Holding Companies**	**Elimination**	**Total**
Revenue (non group)	2 586	1 984	640	555	**5 765**	**137**			**5 902**
Sale inter-activity (group)						**3**		**-3**	**0**
Total	**2 586**	**1 984**	**640**	**555**	**5 765**	**140**	**0**	**-3**	**5 902**
Segment operating profit	69	102	11	12	**194**	**34**	**-18**		**210**
Share of profit of associates			-2		**-2**				**-2**
Net financing costs									**-54**
Income tax expenses									**-57**
Net income attributable to minority interests									**3**
Group profit of the period									**94**
Amortization and depreciation on segment assets	37	31	11	6	**85**	**4**	**3**		**92**
Other charges without cash impact	2				**2**				**2**
Allowance for depreciation on assets		1			**1**				**1**
Reversal of depreciation on assets									

3.1.2. Balance sheet information

As of February 28, 2006	**Food and Management Services**								
	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	**Total Food and Management Services**	**Service Vouchers and Cards**	**Holding Companies**	**Elimination**	**Total**
Segment assets	3 419	1 825	1 002	531	**6 777**	**900**	**118**	**-127**	**7 668**
Investments in associates	8		2	18	**29**				**29**
Financial assets (including financial derivatives)									**493**
Income tax assets									**275**
Total Asset									**8 465**
Segment liabilities	1 123	1 096	357	336	**2 912**	**1 263**	**203**	**-127**	**4 251**
Financial liabilities									**1 836**
Income tax liabilities									**166**
Shareholder's equity									**2 212**
Total Liability									**8 465**
Investments	47	25	17	9	**98**	**4**	**1**	**0**	**103**

As of August 31, 2005	**Food and Management Services**								
	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	**Total Food and Management Services**	**Service Vouchers and Cards**	**Holding Companies**	**Elimination**	**Total**
Segment assets	3 165	1 820	1 003	495	**6 483**	**801**	**117**	**-166**	**7 235**
Investments in associates	8		1	17	**26**				**26**
Financial assets (including financial derivatives)									**447**
Income tax assets									**244**

Total Asset									**7 952**
Segment liabilities	950	1 154	375	302	**2 781**	**1 082**	**62**	**-166**	**3 759**
Financial liabilities									**1 978**
Income tax liabilities									**134**
Shareholder's equity									**2 081**
Total Liability									**7 952**
Investments	82	62	14	17	**175**	**10**	**4**	**0**	**189**

3.2. By geographical region

As of February 28, 2006	**North America**	**Continental Europe**	**United Kingdom and Ireland**	**Rest of the world**	**Holding companies**	**Elimination**	**Total**
Revenue (non Group)	2 919	2 198	667	765		**-3**	**6 546**
Segment assets	3 419	2 231	1 022	996	**127**	**-127**	**7 668**
Investments	47	27	17	11	**1**		**103**

As of February 28, 2005	**North America**	**Continental Europe**	**United Kingdom and Ireland**	**Rest of the world**	**Holding companies**	**Elimination**	**Total**
Revenue (non Group)	2 586	2 062	643	614		**-3**	**5 902**

As of February 28, 2005	**North America**	**Continental Europe**	**United Kingdom and Ireland**	**Rest of the world**	**Holding companies**	**Elimination**	**Total**
Segment assets	3 165	2 206	1 032	874	**124**	**-166**	**7 235**
Investments	82	68	13	21	**5**		**189**

4. Notes to the financial statements as of February 28, 2006

4.1. Operating expenses by nature

(in millions of euros)	**First half-year 2005-2006**	**First half-year 2004-2005**
Depreciation and amortization and change in provisions	-99	-92
Personnel costs		
- Wages	-2347	-2108
- Other personnel expenses (*)	-734	-658
Raw material costs and change in inventory	-2181	-1993
Other operating expenses	-870	-841
Total	**-6 231**	**-5 692**

(*) Includes expenses relating to defined benefit plans (see note 4.17) and stock options (see note 4.22) .

of which :	**First half-year 2005-2006**	**First half-year 2004-2005**
Cost of sales	-5 610	-5 068
Sales department costs	-75	-66
General and administrative costs	-547	-499
Other operating income and expenses	1	-59
Total	**-6 231**	**-5 692**

4.2. Financial expenses and income

(in millions of euros)	**First half 2005-2006**	**First half 2004-2005**
Net debt cost	-51	-53
Net foreign exchange gains (+) / losses (-)		-3
Net depreciation changes : Allowance (-) Reversals (+)		
Expected return on plans assets related to defined benefit plans	13	11

Discount effect on defined benefit plans	-13	-13
Change in fair value of derivative financial instruments	-1	2
Other		2
Net financing costs	**-52**	**-54**

4.3. Income taxes

Effective income tax rate reconciliation

(in millions of euros)	**First half 2005-2006**
Profit before tax	266
Share of profit of associates	-3
Pre-tax net income	**263**
Legal tax rate applicable to Sodexho Alliance	34,43%
Theoretical income tax expense	**-91**
Effect of differential in tax rates applied to income from foreign countries	1
Permanently non-deductible expenses or non-taxable income	-7
Other tax repayments / charges, net	-4
Tax loss carry-forwards used during the period but not recognised as a deferred tax asset in a previous period	4
Tax loss carry-forwards used arising during the period but not recognised as a deferred tax asset	-5
Actual income tax expense	**-102**
Withholding taxes	**0**
Total income tax expense	**-102**

Deferred tax assets generated by companies in a taxable loss situation during the period or in previous periods, totaled EUR 0.2 million.

A withholding tax liability on dividends receivable of EUR 2 million is accrued in the Group financial statements.

4.4. Earnings per share

	First half 2005-2006	**First half 2004-2005**

Profit of the period	160	94
Average number of shares	159 026 413	159 026 413
Earnings per share	**1,01**	**0,59**

As of February 28, 2006, there were no commitments to create new shares; therefore earnings per share and diluted earnings per share were the same.

4.5. Property, plant and equipment

4.5.1. Details of property, plant and equipment

The following table details Group property, plant and equipment items by nature, and including assets financed by finance leases.

(in millions of euros)	**February 28, 2006**	**August 31, 2005**	**February 28, 2005**
LAND			
Cost	8	7	7
Carrying amount	**8**	**7**	**7**
BUILDINGS			
Cost	144	146	146
Accumulated depreciation and amortization	-78	-77	-73
Carrying amount	**66**	**69**	**73**
FIXTURES AND FITTINGS			
Cost	176	155	154
Accumulated depreciation and amortization	-113	-98	-95
Carrying amount	**63**	**57**	**59**
PLANT AND MACHINERY			
Cost	443	415	394
Accumulated depreciation and amortization	-299	-281	-264
Carrying amount	**144**	**134**	**130**
VEHICLES			
Cost	65	63	70
Accumulated depreciation and amortization	-38	-38	-44
Carrying amount	**27**	**25**	**26**
OFFICE AND COMPUTER EQUIPMENT			
Cost	223	208	195

Accumulated depreciation and amortization	-168	-154	-145
Carrying amount	**55**	**54**	**50**
OTHER PROPERTY, PLANT AND EQUIPMENT			
Cost	116	116	113
Accumulated depreciation and amortization	-55	-56	-57
Carrying amount	**61**	**60**	**56**
TOTAL			
Cost	**1 175**	**1 110**	**1 079**
Accumulated depreciation and amortization	**-751**	**-704**	**-678**
Carrying amount	**424**	**406**	**401**

Expenses of EUR 9.9 million were capitalized as in process during the first half of fiscal 2006 (EUR 10.5 million during the first half of fiscal 2005).

Changes in property, plant and equipment during the first half of fiscal 2006 are detailed below:

(in millions of euros)	**February 28, 2006**	**August 31, 2005**	**February 28, 2005**
Opening carrying amount	406	411	411
Increase	77	137	70
Decrease	-2	-17	-8
Assets held for sale	-1		
Newly consolidated companies	5		
Newly deconsolidated companies			
Depreciation and amortisation expense	-66	-131	-63
Impairment losses recognised in profit or loss			
Impairment losses reversed in profit or loss		1	
Translation adjustment	6	3	-9
Other	-1	2	
Closing carrying amount	**424**	**406**	**401**

4.5.1. Fixed assets recorded as finance leases

(in millions of euros)	**February 28, 2006**	**August 31, 2005**	**February 28, 2005**
BUILDINGS			
Cost	73	77	76
Cumulated amortisation	-49	-52	-48
Carrying amount	**24**	**25**	**28**
FIXTURES AND FITTINGS			
Cost	25	27	28
Cumulated amortisation	-16	-17	-20

Carrying amount	**9**	**10**	**8**
PLANT AND MACHINERY			
Cost	68	66	65
Cumulated amortisation	-51	-50	-49
Carrying amount	**17**	**16**	**16**
VEHICLES			
Cost	18	19	34
Cumulated amortisation	-9	-9	-16
Carrying amount	**9**	**10**	**18**
OFFICE AND COMPUTER EQUIPMENT			
Cost	10	10	13
Cumulated amortisation	-7	-7	-11
Carrying amount	**3**	**3**	**2**
OTHER FIXED ASSETS			
Cost	16	19	18
Cumulated amortisation	-8	-10	-10
Carrying amount	**8**	**9**	**8**
TOTAL			
Cost	**210**	**218**	**234**
Cumulated amortisation	**-140**	**-145**	**-154**
Carrying amount	**70**	**73**	**80**

(in millions of euros)	**February 28, 2006**	**August 31, 2005**	**February 28, 2005**
INTANGIBLE ASSETS			
Cost	2	0	0
Accumulated amortisation	-1	0	0
Carrying amount	**1**	**0**	**0**

Maturities of discounted and non-discounted minimum payments as of February 28, 2006

	Minimum lease payments	**Finance lease debt**
Less than 1 year	25	23
1 to 5 years	53	50
More than 5 years	17	1
Total Minimum lease payments	**95**	**74**

4.6. Goodwill

		August 31, 2005	Additions during the period	Decreases during the period	Translation adjustment	Other	February 28, 2006
FMS North America	**Gross**	**2 259**	**1**		**61**		**2 321**
	Depreciation	**0**					**0**
FMS United Kingdom and Ireland	**Gross**	**677**			**3**		**680**
	Depreciation	**0**					**0**
FMS France	Gross	243	14				257
	Depreciation	-1					-1
FMS Scandinavian	Gross	129			-1		128
	Depreciation	0					0
FMS Netherlands	Gross	121					121
	Depreciation	0					0
FMS Belgium	Gross	24					24
	Depreciation	0					0
FMS Spain	Gross	19					19
	Depreciation	0					0
FMS Italy	Gross	16					16
	Depreciation	0					0
FMS Germany	Gross	17					17
	Depreciation	0					0
Other FMS of Continental Europe	Gross	5					5
	Depreciation	-1					-1
FMS Continental Europe	**Gross**	**574**	**14**	***0***	**-1**	**0**	**587**
	Depreciation	**-2**	**0**	***0***	**0**	**0**	**-2**
FMS Asia-Australia	Gross	34			1		35
	Depreciation	0					0

FMS South of America	Gross	23			2		25
	Depreciation	0					0
Universal Sodexho	Gross	53			1		54
	Depreciation	0					0
Other	Gross	1					1
	Depreciation	0					0
FMS Rest of the world	**Gross**	**111**	**0**	**0**	**4**	**0**	**115**
	Depreciation	**0**	**0**	**0**	**0**	**0**	**0**
SVC Brazil	Gross	60			8		68
	Depreciation	0					0
Luncheon Tickets	Gross	16					16
	Depreciation	0					0
Other SVC	Gross	16	2				18
	Depreciation	-2					-2
SVC	**Gross**	**92**	**2**	**0**	**8**	**0**	**102**
	Depreciation	**-2**	**0**	**0**	**0**	**0**	**-2**
Holdings	**Gross**	**2**					2
	Depreciation	**0**					0
TOTAL	**Gross**	**3 715**	**17**	**0**	**75**	**0**	**3 807**
	Depreciation	**-4**	**0**	**0**	**0**	**0**	**-4**

FMS: Food and Management Services.
SVC: Service Vouchers and Cards.

The increase in goodwill in France relates to the Lido acquisition (SEGHSMI). The acquisition of 20% of Altys Multiservices related to the exercise of the put option on minority interests did not affect goodwill.

4.7. Intangible assets

	February 28, 2006	August 31, 2005	February 28, 2005
Client investments			
Cost	251	224	188
Accumulated amortization	-100	-86	-75
▯ **Carrying amount**	**151**	**138**	**113**
Licenses and software			
Cost	185	174	170
Accumulated amortization	-118	-102	-91
▯ **Carrying amount**	**67**	**72**	**79**
Other intangible assets			
Cost	38	26	23
Accumulated amortization	-12	-11	-10
▯ **Carrying amount**	**26**	**15**	**13**
TOTAL			
Cost	**474**	424	381
Accumulated amortization	-230	-199	-176
▯ **Carrying amount**	**244**	**225**	**205**

Changes in intangible assets were as follows:

	February 28, 2006	August 31, 2005	February 28, 2005
Opening carrying amount	**225**	**225**	**225**
Additions through business combination	34	60	22
Additions from internally developed intangibles		1	1
Decreases		-1	-1

Newly consolidated companies	11		
Newly deconsolidated companies			
Assets classified as held for sale			
Amortization expense	-31	-60	-28
Impairment losses recognised in profit or loss			
Impairment losses reversed in profit or loss			
Translation adjustment	5		-14
Other			
Closing carrying amount	**244**	**225**	**205**

4.8. Associates (equity method investees)

(In millions of euro)	**Cost at August 31, 2005**	**Net income for the period**	**Dividend paid for the period**	**Changes in scope of consolidation**	**Translation adjustment and other items**	**Cost at February 28, 2006**
Doyon Universal Services	8,8	0,4			0,2	9,4
NANA	7,6	0,2			0,2	8,0
BAS	4,8				0,5	5,3
BAS 2	3,2				0,3	3,5
Colchester	1,2				0,6	1,8
South Manchester		1,7	(0,2)		(1,3)	0,2
Other	0,3	0,3		0,1		0,7
Total	**25,9**	**2,6**	**(0,2)**	**0,1**	**0,5**	**28,9**

Shares in the net negative equity of associates are covered by a provision for contingencies reported as a balance sheet liability (see 4.18.).

Details of this provision are as follows:

	Cost at August 31, 2005	**Net income for the period**	**Dividend paid for the period**	**Change in scope of consolidation**	**Translation adjustment and other items**	**Cost at February 28, 2006**
SERCO Sodexho Defense Services	(4,4)	0,1				(4,3)
Peterborough Prison Management	(3,3)	0,7			(0,2)	(2,8)
Agecroft (A.P.M.)	(2,9)					(2,9)
Sodexho Catalyst Roehampton	(2,8)				(0,7)	(3,5)
Ashford Prison Services	(2,2)	(0,2)			(0,2)	(2,6)
South Manchester	(1,5)				1,5	(0,0)
Kings College	(1,5)	(0,4)				(1,9)
Stoke	(0,8)				(0,1)	(0,9)
Other	(0,4)	(0,1)	(0,4)		0,2	(0,7)
Negative equity of associates	**(19,7)**	**0,1**	**(0,4)**	**0,0**	**0,5**	**(19,5)**

Following is principal financial data for associates:
(figures do not reflect the Group's interest)

	Country of activity	**% of interest**	**Total balance sheet**	**Assets**	**Liabilities**	**Shareholders' equity**	**Revenues**	**Profit for the period**

Colchester *	UK	14,0%	942,1	942,1	929,7	12,4	121,9	(0,4)
Manchester Royal Infirmary *	UK	25,0%	548,5	548,5	548,5	0,0	54,1	0,2
Sodexho Catalyst Romford Ha *	UK	25,0%	358,0	358,0	357,9	0,1	316,3	0,0
BAS *	Chile	33,3%	158,4	158,4	142,5	15,9	3,6	0,1
Kings College *	UK	25,0%	148,4	148,4	155,9	(7,5)	10,0	(1,7)
Peterborough Prison Management *	UK	33,3%	139,1	139,1	147,7	(8,6)	15,4	2,0
South Manchester UK *	UK	25,0%	129,2	129,2	128,5	0,7	7,2	6,7
Mercia Healthcare *	UK	25,0%	113,6	113,6	114,9	(1,3)	5,7	(0,2)
Sodexho Catalyst Roehampton*	UK	25,0%	105,2	105,2	119,0	(13,8)	14,5	0,0
Ashford Prison Services *	UK	33,3%	103,9	103,9	111,5	(7,6)	11,6	(0,7)
Agecroft (APM) *	UK	50,0%	84,3	84,3	90,1	(5,8)	13,9	0,0
Fife *	UK	10,0%	71,2	71,2	71,6	(0,4)	4,5	0,1
Conwy *	UK	10,0%	62,7	62,7	63,9	(1,2)	1,5	0,2
Stoke *	UK	10,0%	65,4	65,4	74,5	(9,1)	16,7	(0,2)
NANA (31 janvier 2006)	USA	43,6%	43,2	43,2	24,9	18,3	47,5	0,5
Exeter *	UK	10,0%	38,6	38,6	37,0	1,6	0,3	2,1
BAS 2 *	Chile	33,3%	38,0	38,0	27,6	10,4	0,0	0,0
SERCO Sodexho Defense Services	Australia	50,0%	27,7	27,7	36,4	(8,7)	21,0	2,0
Doyon Universal services	USA	49,9%	22,3	22,3	3,3	19,0	25,0	0,8

4.9. Asset impairment

(In millions of euro)	August 31, 2005	Charged	Released	Other	February 28, 2006
Goodwill	4				4
Intangible assets	0				0
Property, plant and equipement	1				1
Asset impairment	**5**	**0**	**0**	**0**	**5**

Impairment tests on assets with indefinite useful lives have been performed as of August 31, 2005 as described in note 2.8.2.

The main assumptions were the following:

	FMS France	FMS North America	FMS UK	FMS Sweden
Discount rate	7.5%	7.5%	7.8%	7.5%
Long term growth rate	2%	2.5%	2.5%	2%

For the other countries and the Service Vouchers and Cards activity, the discount rate was 7.5% (with a rate up to 90% higher for certain countries considered to have more risk) and the long term growth rate used to extrapolate the terminal value based on the data in year 3 of the forecast was 2% (up to 6% for subsidiaries in development).

This analysis did not result in any impairment loss being required to be recognized.

4.10. Financial assets

NON CURRENT	August 31, 2005	Increase / decrease during the period	Change in scope of consolidation	Translation adjustment and other items	February 28, 2006
Available for sale assets Investments in non - consolidated companies					
Cost	41				41
Impairment provisions	-1				-1
Net book value	**40**	**0**	**0**	**0**	**40**
Loans and receivables					
Receivables from investees					

Cost	22	2	1		25
Impairment provisions			-1		-1
Net book value	**22**	**2**	**0**	**0**	**24**
Loans receivable					
Cost	4	-1		-1	2
Impairment provisions					0
Net book value	**4**	**-1**	**0**	**-1**	**2**
Financial assets at fair value through profit & loss					
Other non current financial assets					
Fair value	**8**	**-1**	**1**	**0**	**8**
Total Non current financial assets					
Cost	75	0	2	-1	76
Impairment provisions	-1	0	-1	0	-2
Net book value	**74**	**0**	**1**	**-1**	**74**

Principal equity investments

The Group holds an 18.50% interest in Bellon SA, parent company of Sodexho Alliance, for an amount of EUR 32.4 million. This financial asset available for sale represents an investment in a company with no quotation on an active market and therefore its fair value cannot be reliably determined. In addition these shares do not represent a liquid receivable. For these reasons, this investment is measured at its acquisition cost.

The Group has a 9.3% interest in Leoc Japan Co for EUR 4.9 million.

CURRENT	**August 31, 2005**	**Increase / decrease during the period**	**Change in scope of consolidation**	**Translation adjustment and other items**	**February 28, 2006**
Available for sale assets					
Marketable securities with a maturity over 3 months					
Cost	1	-1		0	0
Impairment provisions	0				0
Net book value	**1**	**-1**	**0**	**0**	**0**
Restricted cash and other financial assets related to Vouchers and Cards activity					
Cost	326	47	2		375
Impairment provisions					0
Net book value	**326**	**47**	**2**	**0**	**375**
Loans and receivables					
Loans					
Cost	2				2
Impairement provisions					0
Net book value	**2**	**0**	**0**	**0**	**2**
Financial assets at fair value through profit & loss					
Other financial assets					
Fair value	**4**				**4**
Total Current financial assets					
Cost	333	46	2	0	381
Impairment provisions					0

Net book value	**333**	**46**	**2**	**0**	**381**

Restricted cash principally relates to funds in the Service Vouchers and Cards activity that are subject to special regulations in France (EUR 157 million) and Romania (EUR 33 million), guarantee funds for affiliates in Mexico (EUR 13 million) and contractual guarantees provided to certain public sector clients in Venezuela (EUR 13 million).

Net losses of the period reported directly in shareholders' equity related to financial assets classified as available for sale totaled EUR 3 million.

Total gains and losses transferred from shareholders' equity and reported in financial income were immaterial for the first half of fiscal 2006.

4.11. Inventories

(In millions of euro)	August 31, 2005	Increase / decrease during the period	Change in scope of consolidation	Translation adjustment and other items	February 28, 2006
Gross	178	2		2	182
Provision	-2			0	-2
Net book value	**176**	**2**	**0**	**2**	**180**

Inventories principally comprise food products and consumables with a high turnover rate, and are measured applying the FIFO method.

No inventory items have been pledged against liabilities.

4.12. Trade and other receivables

(In millions of Euro)	Gross value as of February 28, 2006	Depreciation as of February 28, 2006	Carrying amount as of February 28, 2006	Carrying amount as of August 31, 2005
Net plan assets (*)	2		2	2
Other non current assets	20		20	16
Total Other non current assets	**22**	**0**	**22**	**18**
Advances to suppliers	8	0	8	5
Accounts receivable	1,971	-82	1,889	1,508
Other operating receivables	208	-4	204	175
Prepaid expenses	67		67	57
Other non operating receivables	4		4	5
Assets held for sale	1		1	0
Total Trade receivables	**2 259**	**-86**	**2 173**	**1 750**

* *Net pension fund assets are detailed in note 4.17. Pensions and other personnel benefits.*

4.13. Cash and cash equivalents

(In millions of euro)

	February 28, 2006	August 31, 2005	February 28, 2005
Marketable securities	358	433	393
Cash	464	516	459
Cash and cash equivalents	**822**	**949**	**852**
Bank overdrafts	-81	-21	-48
Total	**741**	**928**	**804**

Marketable securities were EUR 358 million, and were as follows:

(In millions of euro)	February 28, 2006
Short -term notes	155
Term deposits	93
Listed bonds	42
SICAV	32
Mutual funds	36
Total Marketable securities	**358**

4.14. Change in shareholders equity

	Number of shares outstanding	Common stock	Additional paid in capital	Cumulative translation adjustment	Consolidate reserves
Shareholders' equity at August 31, 2004	**159,026,413**	**636**	**1,186**	**0**	**-52**
Capital increase					
Dividends paid (excl.treasury shares)					
Last year net income of Sodexho Alliance SA					-8
Net income for the period					2
Change in scope of consolidation					
Change in cumulative translation adjustment and other movements				10	
Operations recognised directly in shareholders equity					
Shareholders equity at August 31, 2005	**159 026 413**	**636**	**1,186**	**10**	**-38**
Capital increase					
Dividends paid (excl.treasury shares)					
Last year net income of Sodexho Alliance SA					-
Net income for the period					1
Change in scope of consolidation					
Change in cumulative translation adjustment and other movements				66	
Operations recognised directly in shareholders equity					
Shareholders equity at February 28, 2006	**159 026 413**	**636**	**1,186**	**76**	**-30**

(1) Net change in deferred income tax (see 4.20) .

The Group holds 2,620,113 shares in Sodexho Alliance for an amount of EUR 70 million, in connection with various share based payment plans for Group employees. These shares are reported as a reduction in shareholders' equity in accordance with IAS 32.

During the period, the Group purchased Alliance shares for an amount of EUR 5 million and has delivered shares for EUR 23 million to Group employees in connection with these plans.

4.15. Borrowing and financial liabilities

(in millions of euro)	February 28, 2006 Current	February 28, 2006 Non current	August 31, 2005 Current	August 31, 2005 Non current
Bond issues				
Euro	**66**	**1 296**	**30**	**1 295**
Bank borrowings (exluding impact of swaps described in 4.16.)				
US dollar	3	353	3	487
Euro	5	17	2	44
Pound sterling				
Other currencies	8	4	8	4
	16	**374**	**13**	**535**
Capital lease obligations				
US dollar			1	1
Euro	20	48	24	50
Other currencies	3	3	3	4
	23	**51**	**28**	**55**
Other borrowings				
Euro	1	4	12	4
Other currencies	1	2	2	2
	2	**6**	**14**	**6**
TOTAL	**107**	**1 727**	**85**	**1 891**

For borrowings other than bonds amortized cost is considered to be the same as historical cost as expenses relating to these borrowings are not significant.

Bond issues

	August 31, 2005	Increases	Repayments	Discounting effect	Translation adjustment	February 28, 2006
1999 bond issue - EUR 300 million						
Principal	300					**300**

Debt issuance cost	-2			0		**-2**
Accrued interest	6	7				**13**
Total	**304**	**7**	**0**	**0**	**0**	**311**
Number of bonds	*300 000*					***300 000***
Effective rate	*4,787%*					*4,787%*
2002 bond issue - EUR 1 billion						
Present value of unfunded obligations	1 000					**1 000**
Debt issuance cost	-5			1		**-4**
Accrued interest	26	29				**55**
Total	**1 021**	**29**	**0**	**1**	**0**	**1 051**
Effective rate	6,035%					6,035%
Total	**1 325**	**36**	**0**	**1**	**0**	**1 362**

- **EUR 300 million**
  Sodexho Alliance issued bonds for EUR 300 million on March 16, 1999, represented by 300,000 bonds of EUR 1,000 each.

These bonds are redeemable at par on March 16, 2009, and earn interest at an annual rate of 4.625% . Interest is payable on March 16 of each year.

- **EUR 1,000 million loan**

  Sodexho Alliance issued bonds totaling EUR 1,000 million on March 25, 2002, repayable at par on March 25, 2009.

  These bonds earn interest an at annual rate of 5.875%; Interest is payable on March 25 of each year.

These bonds do not have financial covenants.

Other borrowings

- **April 2005 Multi-currency revolving credit facility**

  On April 29, 2005, Sodexho Alliance and Sodexho Inc entered into a multi-currency revolving credit facility for maximum amounts of EUR 460 million and $700 million. This credit facility initially expired on April 29, 2010 but may be extended at the request of Sodexho Alliance, and subject to lender approval, initially to April 29, 2011 and subsequently to April 26, 2012. On March 27, 2006 the lenders agreed to an initial extension of the credit facility to April 29, 2011.

  As of February 28, 2006, this facility had been used to draw down USD 366 million at a variable rate indexed to LIBOR and issue USD 103 million of bank guarantees.

  This new credit facility is not subject to financial covenants, but requires the borrower to comply with the standard clauses contained in this type of syndicated credit agreement. In the event of non-compliance with these clauses, bankers representing at least two-thirds of the agreed facility are entitled to demand early repayment of the balance outstanding under the facility. Early repayment of the loan would also entitle the holders of the March 2002 EUR 1 billion bond issue to demand early redemption of their bonds.

- **Interest rates**

  In order to comply with Group financing policy, substantially all borrowings are at fixed rates of interest, and where acquisition financing is arranged in a currency other than that of the acquired company, the debt is hedged by the use of currency swaps.

  As of February 28, 2006, 79% of the Groups consolidated borrowings were at fixed rates, and the average rate of interest as of the same date was 5.7%.

Maturities of borrowings and financial liabilities

(in millions of euro)	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total as of February 28, 2006**
Bond issues	66	1 296		**1 362**
Bank borrowings *	15	369	6	**390**
Capital lease obligations	23	50	1	**74**
Other borrowings	3	3	2	**8**
TOTAL	**107**	**1 718**	**9**	**1 834**

** excluding swap impacts described in note 4.16.*

4.16. Financial instruments

Financial instruments related to intra-group loans in foreign currencies

As of February 28, 2006

(equivalent value in millions of euro)	**Note**	**Borrowings in euro**	**Borrowings in US Dollar**	**Borrowings in GBP**	**Borrowings in other currencies**	**TOTAL**
UK borrowings (GBP 83 million)	(1)					
Due to the bank GBP 83 million				122		**122**
Due from the bank EUR 122 million		-122				**-122**
Fair value adjustment						
Sodexho Scandinavian Holding AB borrowings (SEK 242 million)	(2)					
Due to the bank SEK 242 million					26	**26**
Due from the bank EUR 26 million		-26				**-26**
Fair value adjustment						
Sodexho, Inc. borrowings (USD 111,7 million)	(3)					
Due to the bank USD 118.5 million			99			**99**
Due from the bank EUR 133.6 million		-133				**-133**
Fair value adjustment		-3				**-3**
Sodexho, Inc. borrowings (USD 107 million)	(4)					
Due to the bank USD 107 million			90			**90**
Due from the bank EUR 90 million		-90				**-90**

Fair value adjustment						
Borrowings by other subsidiaries (aggregate)		-9	15		-4	**2**
Total Financial instruments		**-383**	**204**	**122**	**22**	**-35**

As of August 31, 2005

(equivalent value in millions of euro)	**Note**	**Borrowings in euro**	**Borrowings in US Dollar**	**Borrowings in GBP**	**Borrowings in other currencies**	**TOTAL**
UK borrowings (GBP 86 million)	(1)					
Due to the bank GBP 86 million				126		**126**
Due from the bank EUR 126 million		-126				**-126**
Fair value adjustment						
Sodexho Scandinavian Holding AB borrowings (SEK 242 million)	(2)					
Due to the bank SEK 242 million					26	**26**
Due from the bank EUR 26 million		-26				**-26**
Fair value adjustment						
Sodexho Inc borrowing (USD 111,7 million)	(3)					
Due to the bank USD 115 million			94			**94**
Due from the bank EUR 130 million		-130				**-130**
Fair value adjustment		-4				**-4**
Borrowings by other subsidiaries (aggregate)		-9	6		5	**2**
Total Financial instruments		**-295**	**100**	**126**	**31**	**-38**

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1) A currency swap (GBP 83 million for EUR 122 million) was contracted to hedge an intra- group loan of GBP 83 million. This swap will expire during fiscal 2006.

2) A currency swap (SEK 242 million for EUR 26 million) was contracted to hedge 100% of an intra-group loan made to Sodexho Scandinavian Holding AB.

3) In March 2002, a cross currency swap (6.325% for 6.5775%, euros for USD) was contracted to hedge the full amount of an intragroup loan of an initial amount of USD 309 million made by Sodexho Alliance to Sodexho, Inc., repayable March 25, 2007. As of February 28, 2006, the swap covered USD 119 million versus EUR 134 million. The depreciation of the US dollar since inception of the swap has resulted in a reduction of EUR 37 million in the debt as swapped into euros.

4) A currency swap (USD107 million against EUR 90 million) was contracted to partially hedge an intra-group loan of USD 120 million to Sodexho Inc. This swap matures during fiscal 2006.

Sodexho Group has no interest rate swaps accounted for as cash flow hedges.

Fair value of financial instruments

	February 28, 2006		
(in millions of euro)	**Carrying amount**	**Fair value**	**Difference**
FINANCIAL ASSETS			
Investments in non-consolidated companies	40	40	0
Receivables from investees	24	24	0
Other investment securities	0	0	0
Loans receivables	2	2	0
Other non current financial assets	8	8	0
Total non current financial assets	**74**	**74**	**0**
Associates	**29**	**29**	**0**
Derivative financial instruments	**37**	**37**	**0**
Loans and other current financial assets	**6**	**6**	**0**
Financial assets of Service Vouchers and Cards activity	**375**	**375**	**0**
Marketable securities	**358**	**358**	**0**
Total Financial assets	**879**	**879**	**0**
FINANCIAL LIABILITIES			
Bond issues			
2002 EUR 1 billion bond issue	1 051	1 118	67
1999 EUR 300 million bond issue	311	319	8
Total	**1 362**	**1 437**	**75**
Bank borrowings			
Sodexho, Inc. Borrowings	356	356	0
Other	34	34	0
Total	**390**	**390**	**0**
Derivative financial instruments	**2**	**2**	**0**
Bank overdraft	**81**	**81**	**0**
Other borrowings	**82**	**82**	**0**

Total Financial liabilities	**1 915**	**1 992**	**75**

4.17. Post employment and other employee benefits

(in millions of euro)	**February 28, 2006**	**August 31, 2005**
Net plan assets *	**(2)**	**(2)**
Defined benefit plans	213	215
Other long-term employee benefits	101	93
Employee benefits	**314**	**308**

** included in "other non current assets" in the assets*

4.17.1. Post-employment benefits

Defined contribution plans

These plans involve periodic payment of contributions to outside entities responsible for administrative and financial management of the plans. The plans relieve the employer of any subsequent liability (the entity is responsible for payment of the amounts due to the employees).

Payments made by Group entities are recognized as expenses in the period to which they relate.

Defined benefit plans

The characteristics of the Group's principal defined benefit plans are as follows:

- In France, Sodexho pays retirement indemnities to employees still on the company payroll as of their retirement date. Sodexho's obligation is recognized as a liability on the balance sheet.

- In the United Kingdom, Sodexho has an obligation, which is partially offset by plan assets, to pay a complementary retirement benefit calculated for the following employees:
  - management personnel assigned to the private sector, who receive a portion of their final base salary;
  - management personnel assigned to the public sector, who receive benefits comparable with current practice in this sector.

  This plan was closed new employees effective July 1, 2003, and contributions were increased in order to absorb the deficit.

- In continental Europe (excluding France), the principal defined benefit plans are as follows:
  - in Italy, there is a legal requirement to pay a lump sum retirement benefit on termination of the employment contract (TFR). As of each close, fully vested benefits are measured and presented valued in accordance with legal requirements, and reported in full as a liability;
  - in the Netherlands, additional retirement or pre-retirement benefits are granted to certain employees.

Sodexho also participates in a number of multi-employer plans, in particular in Sweden and the U.S. These plans are reported in accordance with the requirements for defined

contribution plans, as the information necessary for their recognition as defined benefit plans is not available.

Amounts reported in the balance sheet for defined benefit plans are as follows:

(in millions of euro)	**February 28, 2006**	**August 31, 2005**
Net plan assets *	(2)	(2)
Defined benefit plans **	213	215

* *included in "other non current assets" in the assets*

** *included in "employee benefits" in the liabilities*

These amounts are detailed as follows:

(in millions of euro)	**February 28, 2006**	**August 31, 2005**
Present value of funded obligations	538	511
Fair value of plan assets	(412)	(388)
Total	**126**	**123**
Present value of unfunded obligations	85	90
Unrecognized past service costs		
Other unrecognized amounts		
Recognized liabilities for defined benefit obligations	**211**	**213**

As described in note 2.17. , Sodexho has decided to early adopt the option provided in paragraph 93A of the December 2004 amendment to IAS 19, and therefore recognizes actuarial differences during the period in which they occur outside the income statement.

As there were no significant changes to the plans during the first half, the evaluations performed as of August 31, 2005 have not been updated as of February 28, 2006.

Actuarial gains reported in the statement of changes in shareholders' equity amount to EUR 10 million, as follows:

(in millions of euro)	**February 28, 2006**	**August 31, 2005**
Present value of obligations	623	601
including actuarial gains / losses for	21	21
Fair value of plan assets	(412)	(388)

including actuarial gains / losses for	(31)	(31)

Plan assets break down as follows:

(in millions of euro)	**February 28, 2006**	**August 31, 2005**
Shares	277	262
Government bonds	69	65
Private bonds	26	24
Indexed government bonds	16	15
Property assets	14	13
Cash	10	9
TOTAL	**412**	**388**

Amounts reported in the income statement for retirement benefits are as follows:

(in millions of euro)	**February 28, 2006**	**February 28, 2005**
Net current service cost	19	15
Interest cost	13	13
Expected return on plan assets	(13)	(11)
Amortization of unrecognized past service costs & Others		
Net expense	**19**	**17**

Of this net expense for the first half of fiscal 2006:
- EUR 12 million are reported in cost of sales,
- EUR 0.5 million are reported in sales department costs,
- EUR 6 million are reported in general and administrative costs,

the remainder of the expense (financial cost and anticipated yield from plan assets) is reported in financial income.

The current amount of the obligation in connection with defined benefits has evolved since September 1, 2005 as follows:

Obligation as of September 1st, 2005	**601**
Net current service cost	19
Interest cost	13
Actuarial gains / losses	
Past service costs	
Contribution made by the plan participants	3
Benefits paid	(12)
divestitures)	
Exchange differences	2
Other	(3)
Obligation as of February 28, 2006	**623**

The fair value of plan assets has evolved since September 1, 2005 as follows:

Fair value of assets as of September 1st, 2005	**388**

Expected return on assets	13
Company contributions	14
Actuarial gains / losses	
Contributions made by the plan participants	3
Benefits paid	(8)
Business combination (acquisition, divestitures)	
Exchange differences	2
Other	
Fair value of assets as of February 28, 2006	**412**

Actuarial assumptions used in the evaluation made as of August 31, 2005 were as follows:

	France	**Netherlands**	**United Kingdom**
Discount rate	4,00%	4,00%	5,10%
Expected salary increases	2,50%	2,00%	3,95%
Growth rate	2,00%	2,00%	2,70%
Expected return on plan assets	N/A	5,90%	6,80%

The expected rate of return on plan assets has been determined based on returns on assets expected by the financial markets for each category of assets and considering the related maturity. The expected return on assets on the funds is then computed based on the allocation of plan assets between each category of assets.

4.17.2. Other long-term employee benefits

The Group also reports a provision for other personnel benefits. These other personnel benefits principally comprise amounts associated with salary-based savings plans in the U.S. (deferred compensation) and commitments related to long-service awards.

Amounts reported in the balance sheet for other long-term personnel benefits

(in millions of euro)	**February 28, 2006**	**August 31, 2005**
Other long-term employee benefits	101	94

The expense recognized for these benefits for the first half of fiscal 2006 was EUR 4 million, of which EUR 1 million was reported in financial income and relates to deferred compensation plans in the U.S.

4.18. Provisions

	August 31, 2005	Charged	Utilized	Released without corresponding charge	Translation adjustment and other items	Changes in scope of consolidation	Discounting impact on long term provisions
Tax and social security exposures	24	1			3	1	
Employee claims and litigation (**)	80	2	-4	-1	2		
Contract termination and loss-making contracts	14	1	-2				
Client / supplier claims and litigation	5	1	-1	-1			
Negative equity of associates (*)	20						
Other provisions	7			-2	-1	1	
Total	**150**	**5**	**-7**	**-4**	**4**	**2**	**0**

(*) Subsidiaries consolidated by the equity method for which the net equity share is negative (see 4.8) .

All accruals and reversals for the period have been reported in operating income.

Provisions by maturity were as follows:

	Current provisions	Non current provisions
Tax and social security exposures	7	22
Employee claims and litigation (**)	74	5
Contract termination and loss-making contracts	6	7
Client / supplier claims and litigation	1	3
Negative equity of associates (*)		20
Other provisions	2	3
Total	**90**	**60**

(*) Subsidiaries recorded under the equity method for which the net equity share is negative (see 4.8) .

4.19. Trade and other payables

(in millions of euro)	**February 28, 2006**	August 31, 2005
Other non current liabilities	96	82
Total Other non current liabilities	**96**	**82**
Advances from clients	190	174
Accounts payable	1,221	1,123
Employee-related liabilities	648	573
Tax liabilities	161	198
Other operating liabilities	80	82
Deferred revenues	43	38
Other non operating liablities	122	9
Total Trade and other payable	**2,465**	**2,197**

Other liabilities principally comprise dividends payable at February 28, 2006 for EUR 117 million.

Employee related liabilities principally comprise short-term personnel benefits.

4.20. Deferred income taxes

(in millions of euro)	**February 28, 2006**	**August 31, 2005**
Deferred tax assets	244	225
Deferred tax liabilities	-36	-50
Deferred tax assets (net)	**208**	**175**

The amount of deferred tax assets which were not recognized they were not considered likely to be recovered, is EUR 25 million, of which EUR 7 million were reported in the financial statements of subsidiaries prior to their acquisition.

The source of these deferred tax amounts is as follows:

(in millions of euro)	**February 28, 2006**	**August 31, 2005**
Temporary differences (net)		
- Employee benefit provisions	175	169
- Fair value of financial instruments	-1	-2
- Other temporary differences	24	1
- Tax loss carry-forwards	10	7
Net deferred tax assets	**208**	**175**

Temporary differences on employee benefit provisions correspond mainly to deferred taxes on:

- worker s compensation in the U.S., which is deductible when paid;
- post-employment benefits;
- stock options in the U.S.

Net deferred tax assets reported directly in shareholders equity as of February 28, 2006 were EUR 5 million.

4.21. Statement of cash flows

4.21.1. Changes in working capital

(in millions of euro)	**August 31, 2005**	**Increase / decrease**	**Translation adjustment and items**	**Changes in scope of consolidation**
Other non current assets	**18**	**3**	**1**	
Inventories	**176**	**2**	**2**	
Advances to suppliers	5	3		
Accounts receivable, net	1,508	349	30	1
Other operating receivables	174	29	1	
Prepaid expenses	57	8	1	1
Assets held for sale		1		
Operating receivables	**1,744**	**390**	**32**	**2**
Restricted cash and financial assets related to the Service Vouchers and Cards activity	**326**	**48**	**-1**	**2**
Change in asset items in working capital	**2,264**	**443**	**34**	**4**
Investment- and financing-related receivables	***6***	***-1***		
Employee benefits	**308**	**7**	**-1**	
Ohter non current liabilities	**82**	**11**	**3**	
Advances from clients	174	14	2	
Accounts payable	1,123	70	23	4
Tax and employee-related liabilities	771	23	10	5
Other operating liabilities	82	21	-23	
Deferred revenues	38	-13	19	
Operating liabilities	**2,188**	**115**	**31**	**9**
Vouchers payable	**1,001**	**119**	**23**	**2**
Change in liability items in working capital	**3,579**	**252**	**56**	**11**

Investment- or financing-related liabilities	***9***	***113***

4.21.2. Changes in borrowings

(in millions of euro)	**August 31, 2005**	**Increase / decrease**	**New leases**	**Accrued interests**	**Changes in scope of consolidation**	**Translation adjustment and other items**	**Febru**
Bond issues	1,326			36			
Bank borrowings	548	-177			6	13	
Capital lease obligations	82	-14	5			1	
Other borrowings	20					-12	
Derivative financial instruments	-38	-4				7	
Borrowings	**1,938**	**-195**	**5**	**36**	**6**	**9**	

4.21.3. Acquisition and disposal of fixed assets

(in millions of euro)	**Acquisitions**	**Disposals**	**Net change**
Operating investments	-108	3	-105
Change in financial investments		1	1
Less: Tax effect of disposals			0
obligations	**-108**	**4**	**-104**
Fair value of plan assets			
Net disposals/(acquisitions) of	-34	0	-34
Present value of unfunded obligation	7		7
Less: Tax effect of disposals			0
acquisitions/disposals of	**-27**	**0**	**-27**
TOTAL	**-135**	**4**	**-131**

4.22. Share-based payments

Shares in Sodexho Alliance have been allocated by the Board of Sodexho Alliance to Group employees in connection with various stock option plans.

4.22.1. Principal characteristics of share-based payment plans

Vesting period
Options granted after January 2003 vest 25% per year over four years. The contractual life of these options is six years.

Options granted to American employees in January 2002, September 2002 and October 2002, vest four years after the grant date, and have contractual lives of six years, five years and five and a half years respectively.

Options granted before January 2003 to non-U.S. employees vest after a period of four years from the date of grant, and have a contractual life of five years.

Conditions for exercise of options
Half the options granted in January 2001 included a performance condition requiring that Group earnings per share, excluding exceptional items, for fiscal 2004 be at least EUR 1.98.

As this condition was not met, the related options were cancelled during fiscal 2005.

Other option plans in place are not subject to performance objectives.

4.22.2. Valuation model used and assumptions

The fair value of options granted and settled with shareholders' equity instruments, is estimated at the grant date using a binomial model, which considers the terms and conditions under which the options were grantted and assumptions about option exercises.

Except for the exercise price of the options described in note 4.22.3., the following table gives a list of input data for the model used for each plan measured in accordance with IFRS 2 for the period ended on February 28, 2006:

Date of issuance	Expected volatilty (%)	Maturity (year)	Risk free interest rate (%)	Expected dividend yield (%)	Expected annual forfeiture (%)	Expected annual dividend growth (%)	Risk premium (%)	Expected peric of time betwee grant date anc exercise date (year)
27 January 2003								