

SODEXHO ALLIANCE SA
Form 20-F
January 12, 2007

As filed with the Securities and Exchange Commission on January 12, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 2006
OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-31274

SODEXHO ALLIANCE, SA

(Exact name of Registrant as specified in its charter)

Republic of France

(Jurisdiction of incorporation or organization)

**3, avenue Newton
78180 Montigny \square le \square Bretonneux
France**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

**Name of each exchange on which
registered**

American Depositary
Shares,
Representing Common
Shares

New York Stock Exchange

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Common Shares,
par value \$4 per share

New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

The number of outstanding shares of each class of stock of Sodexo Alliance, SA at August 31, 2006 was:

Common Shares, par value \$4 per share 159,026,413

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-b of the Exchange Act. (Check one).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a Shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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As used in this Annual Report, the terms "we," "our," "us," "Sodexo," "Sodexo Alliance" and "the Group" refer to Sodexo Alliance, SA and its subsidiaries.

FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report may include statements which may constitute forward-looking statements. These statements are not historical facts but instead represent our belief regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. Such statements include information regarding our beliefs, estimates, forecast, projections and current expectations concerning our future financial condition and results of operations, including trends affecting our businesses. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors. Factors which might cause our results to differ include the impact of client retention, new sales, outsourcing trends, labor markets, employee relations, the price of food and other operating costs, contract terms and pricing, competition, economic conditions, seasonality, the regulatory environment, tax policy, food borne illnesses, exchange rates, the integration and performance of acquisitions and new lines of business, natural disasters, acts of war and terrorism, our debt service, our debt to capital ratio, and operational risks.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. All forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements appearing in this Annual Report. Forward-looking statements in this Annual Report are identified by use of the following words and other similar expressions, among others: "anticipate," "believe," "outlook," "probably," "project," "risks," "seek," "should," "target," "objectives," "could," "estimate," "expect," "goals," "intend," "may," "shall." You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as at the date of the particular statement. We undertake no obligation (and expressly disclaim any such obligation to) update publicly or revise any forward-looking statement as a result of new information, future events or otherwise. In light of these risks, our results could differ materially from the forward-looking statements contained in this Annual Report.

PART I**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

Please see the section entitled "Item 5. Operating and Financial Review and Prospects" for a presentation of selected financial data. In order to comply with European regulations, the Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union effective for the 2006 fiscal year, which commenced on September 1, 2005. These financial statements include comparatives as of and for the year ended August 31, 2005. There are no significant differences between IFRS as adopted by the European Union and IFRS as adopted by the International Accounting Standards Board, as applied by the Group.

Exchange Rates

The following tables set forth, for the periods and dates indicated, certain information concerning the exchange rate for the euro into U.S. dollars based on the 2 p.m. ECB time rates quoted by the European Central Bank. Unless otherwise indicated herein, exchange rates have been translated throughout this Annual Report on Form 20-F at the end-of-period rate corresponding to the period for which the translation has been made.

	<u>At end of period(1)</u>	<u>Average rate(2)</u>	<u>High</u>	<u>Low</u>
Euro per U.S. dollar:				
2002	1.0170	1.0978	1.1658	0.9856
2003	0.9152	0.9357	1.0364	0.8403
2004	0.8257	0.8296	0.9274	0.7777
2005	0.8198	0.7856	0.8415	0.7335
2006	0.7781	0.8147	0.8571	0.7717

(1) All periods end August 31 of the stated year.

(2) The average of the rates on the last day of each month during the relevant period.

<u>Month ended</u>	<u>High</u>	<u>Low</u>
Euro per U.S. dollar:		
July 31, 2006	0.8012	0.7816
August 31, 2006	0.7863	0.7741
September 30, 2006	0.7903	0.7781
October 31, 2006	0.7990	0.7851

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November 30, 2006	0.7873	0.7576
December 31, 2006	0.7637	0.7501

On January 10, 2007, the 2 p.m. ECB time rate quoted by the European Central Bank was $\square 0.7699 =$ U.S. \$1.0000, or U.S. \$1.2988 = $\square 1.0000$. This rate may differ from certain of the actual rates used in the preparation of our consolidated financial statements, which are prepared in euro, and therefore dollar amounts appearing herein may differ slightly from the actual dollar amounts which were translated into euro in the preparation of such consolidated financial statements in accordance with IFRS.

A substantial proportion of our assets, liabilities, revenues and expenses are denominated in currencies other than euro, in particular, the U.S. dollar and the British pound sterling. Accordingly, fluctuations in the value of the

euro relative to other currencies can have a significant effect on the translation into euro of non-euro assets, liabilities, revenues and expenses. For information with respect to the impact of fluctuations in exchange rates on our operations, see [Item 3D Key Information Risk Factors, [Item 5 Operating and Financial Review and Prospects] and [Item 11 Quantitative and Qualitative Disclosures About Market Risk.]

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the offer and use of proceeds

Not Applicable.

D. Risk Factors

You should consider the following risks with respect to an investment in us and investments in our American Depositary Shares ([ADSs]).

We depend on the retention and renewal of our existing client contracts and our ability to attract new customers

Our success depends on our ability to retain and renew existing client contracts and to obtain and successfully negotiate new client contracts. Our ability to do so generally depends on a variety of factors, including the quality, price and responsiveness of our services, as well as our ability to market these services effectively and to differentiate ourselves from our competitors. Additionally, our growth in the Service Vouchers and Cards business depends upon our geographic expansion, new product development, superior branding and affiliate networks. We cannot assure you that we will be able to renew existing client contracts or that our current customers will not turn to competitors, cease operations, elect to self-operate or terminate contracts with us as a result of merger or acquisition. We also cannot be certain that we will obtain new contracts in any of our market segments, or that any new contracts will be profitable. If we cannot continue to grow our operations through the renewal of existing contracts or the negotiation of new contracts, our business, financial condition, results of operations and cash flows will be materially and adversely affected.

We may be adversely affected if customers reduce their outsourcing or use of preferred vendors

Our business and growth strategies depend in large part on the continuation of a trend in business, education, healthcare and government markets toward outsourcing services. The decision to outsource depends upon customer perceptions that outsourcing may provide higher quality services at a lower overall cost and permit customers to focus on core business activities. We cannot be certain that this trend will continue or not be reversed or that customers that have outsourced functions will not decide to perform these functions themselves. In addition, labor unions representing employees of some of our current and prospective customers have occasionally opposed the outsourcing trend and sought to direct to union employees the performance of the types of services we offer. Management has also identified a trend among some of our customers toward the retention of a limited number of preferred vendors to provide all or a large part of their required services. We cannot be certain that this trend will continue or not be reversed or, if it does continue, that we will be selected and retained as a preferred vendor to provide these services. Adverse developments with respect to either of these trends would have a material adverse effect on our business, results of operations, cash flows and financial condition.

Our business may suffer if we are unable to hire, train and retain sufficient qualified personnel or if labor costs continue to increase

Certain trends in the global labor market, or in certain specific areas, could adversely impact our business. The global economy has experienced reduced levels of unemployment in recent years, which have created a shortage of qualified workers at all levels. Given that our workforce requires large numbers of entry level, skilled and hourly workers, especially in the delivery of services other than food services to our clients, low levels of unemployment could compromise our ability in certain businesses to provide quality service or compete for new business. A failure

to hire, train and retain qualified management personnel, particularly at the entry management level could also jeopardize our continued success. Furthermore, increases in wages or employee benefits whether regulatory or otherwise, could have an impact on profitability. Moreover, labor laws in certain countries require us to retain employees of businesses we acquire, which in turn may cause us to incur additional training costs and increase headcount beyond optimal levels. Adverse developments regarding the foregoing trends, individually or in the aggregate, could have a material adverse effect on our results of operations.

We may be adversely affected if claims by employees in connection with their employment are resolved against us

Due to the nature of our business and the large number of individuals we employ around the world, and the risk of employment-related litigation, the resolution of such claims against us could have an adverse effect on our business.

Food shortages, and increases in food or other indirect operating costs could adversely affect our results of operations and financial condition

We face fluctuating food prices and limited availability of certain food items during the year. Food price and availability and transport costs, including the cost of oil and gas, also vary by geographic location. In addition, broader trends in food consumption, such as concern about health and safety, may from time to time disrupt our business. Our typical contract allows for certain adjustments due to rising prices or changed menus over time, but often we must accept a reduced margin for a period of time to ensure the availability of certain required food groups and to maintain customer satisfaction. Our experience has been that changes in food preferences or shortages, when they occur, may adversely affect our profitability at a given location. Although most of our contracts provide for minimum annual price increases for products and services provided by us, we could be adversely impacted during inflationary periods if the rates of contractual increases are lower than the relevant inflation rate.

Our profitability could be adversely affected if we were faced with other indirect cost increases, to the extent we were unable to recover such increased indirect costs through increases in our prices for our products and services. For example, in recent years there has been, in general, a rise in insurance and related premiums. To the extent that food or other operating costs increase, and to the extent we are unable to pass these costs on to our clients for competitive or economic reasons, our profit margins will decrease.

The pricing terms of our services contracts may constrain our ability to recover costs and to make a profit on our contracts

Most of our contracts have a fixed price element. For example, the terms of these contracts could require us to fix the price of the services we provide and assume the risk that our costs to perform the services and provide the materials will be greater than anticipated. This type of contract term could expose us to losses if our estimates of contract operating costs are too low. Our profitability on these contracts is therefore dependent on our ability to accurately predict the costs associated with our services. These costs may be affected by a variety of factors, some of which may be beyond our control. If we are unable to accurately predict the costs of fixed price contracts, certain projects could have lower margins than anticipated, which could have a material adverse effect on our business.

Competition in our industry could adversely affect our results of operations

There is significant competition in the food and facilities management services business from local, regional, national and international companies of varying sizes, a number of which have substantial financial resources. Our ability to successfully compete depends on our ability to satisfy our clients by providing quality services at a reasonable price. Certain of our competitors may be willing to underbid us, accept a lower profit margin or expend more capital in order to obtain or retain business. Existing or potential clients may also elect to self-operate their food or other services, or to utilize other purchasing arrangements, thereby reducing or eliminating the opportunity for us to serve them or compete for the account.

Moreover, because our business is highly decentralized, it is imperative that we keep pace with advances in technology and information services, especially with respect to inventory, labor and cost management and the

communication of our best practices among our operations worldwide. If we do not or cannot make necessary expenditures in these areas, we may be less competitive and, consequently, less profitable.

Our strategic plan to increase the proportion of our business dedicated to facilities management services will require the application of new skills

Although facilities management services have constituted a part of our business, our strategy includes substantially increasing its weight in our overall mix of activities. Facilities management services will require skilled personnel in the areas of building maintenance, electrical engineering, plumbing, heating and cooling systems, along with other highly and semi-skilled technical areas and will require us to also manage the operational and labor force risks of a more technically challenging environment. If we fail to manage our growth in this area or to manage or attract the right mix of experienced personnel in this area, our plans for growth in the facilities management services business could be adversely affected.

Unfavorable economic conditions could adversely affect our results of operations and financial condition

Economic conditions in the United States and worldwide have resulted in lower demand for our services from non-government sector business clients, particularly private corporate clients in our food and facilities management services business, with a negative impact on our revenues. Economic conditions may also exert budgetary pressures on public sector clients. Further economic downturns may reduce demand for our services as well as decrease occupancy rates in certain segments of the facilities that we manage. These factors may cause us to lose business, lose economies of scale, or contract for business on less favorable terms than our current prevailing terms. Additionally, our Remote Sites activity is heavily dependent on the oil industry, and therefore can be cyclical and dependent upon oil prices.

Our semi-annual results may vary significantly as a result of factors beyond our control

Our semi-annual results of operations may fluctuate significantly as a result of a number of factors over which we have no control, including our customers' budgetary constraints, school vacations, the timing and duration of our customers' planned maintenance activities and shutdowns, changes in our competitors' pricing policies and general economic conditions. Furthermore, some operating and fixed costs, which remain relatively constant throughout the fiscal year, may lead to fluctuations in semi-annual results when offset by differing levels of revenues. For these reasons, a half-year to half-year comparison is not a good indication of our current performance or how we will perform in the future.

We are subject to extensive regulation

Due to the nature of our industry, our listings on the French and the New York stock exchanges, and the global reach of our operations, we are subject to complex, overlapping and rapidly evolving laws, regulations and licensing requirements, which are administered by a large number of regulatory and enforcement authorities. The laws and regulations governing our industry have become increasingly complex governing a wide variety of areas, including, among others, labor, employment, immigration, health and safety, corporate governance, consumer protection and the environment. The cost of compliance and the failure or suspected failure to comply with any of these regulations, including failures that are the result of unauthorized actions by employees, suppliers, agents and other third parties, may result in increased regulatory scrutiny through inquiries or investigations, adverse media attention and the possible distraction of management time as well as in penalties, fines, disciplinary actions, increase our litigation risk or limits on our business operations. A number of these adverse consequences could occur even if, ultimately, it is determined that there has been no failure to comply with applicable regulations. There can be no assurance that additional regulation or enforcement initiatives in any of the jurisdictions in which we operate would not limit our activities in the future or significantly increase the cost of regulatory compliance.

The growth and success of our Service Vouchers and Cards business depends upon tax and labor law incentives

In addition, the growth and success of our Service Vouchers and Cards business depends to an extent upon the continued availability of domestic tax and labor law incentives encouraging the use of service vouchers and cards by

employers and employees. A reduction or elimination of these benefits in our more significant markets, or across many of our markets, could have an adverse result on our business and results of operations.

Claims of illness or injury associated with the service of food and beverages to the public could adversely affect us

Claims of illness or injury relating to food quality or food handling are common in the food service industry, and a number of these claims may exist at any given time. As a result, we could be adversely affected by negative publicity resulting from food quality or handling claims at one or more of the facilities that we serve. In addition to decreasing our revenues and profitability at our facilities, adverse publicity could negatively impact our service reputation, hindering our ability to renew contracts on favorable terms or to obtain new business.

Our international business results are influenced by currency fluctuations and other factors that may be different from factors affecting the United States market

A significant portion of our revenues is derived from international markets. During fiscal 2006, approximately 70% and 66% of our revenues and operating profit, respectively, were generated outside the euro zone. The operating results of our international subsidiaries are translated into euro and such results are affected by movements in foreign currencies relative to the euro, especially movements in the value of the U.S. dollar.

Our business is also subject to risks whose effects may be more pronounced in our international operations, including national and local regulatory requirements; potential difficulties in staffing and labor disputes; failures to obtain and manage support and distribution for local operations; significant natural disasters such as electrical blackouts, floods or droughts; fluctuations in local interest rates; inflation; credit risk or poor financial condition of local customers; the potential imposition of restrictions on investments; potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries; foreign exchange restrictions; and geo-political or social conditions in certain sectors of our international markets. There can be no assurance that the foregoing factors will not have a material adverse effect on our international operations or on our consolidated financial condition, results of operations or cash flows.

Moreover, we expect that revenues from such emerging markets as Latin America, Central Europe and Asia will continue to develop over the long term. Emerging market operations present several risks, including volatility in gross domestic production; credit risk; civil disturbances; economic and governmental instability; changes in regulatory requirements; nationalization and expropriation of private assets; significant fluctuations in interest rates, currency exchange rates and inflation; the imposition of additional taxes or other payments by foreign governments or agencies; and exchange controls and other adverse actions or restrictions imposed by foreign governments.

We are subject to risks associated with our acquisitions of other businesses

We have acquired and may in the future acquire a substantial number of businesses. Our acquisitions may not improve our financial performance in the short or long term as we expect. Acquisitions enhance our earnings only if we can successfully integrate the acquired businesses into our management organization, purchasing operations, distribution network and information systems. Our ability to integrate acquired businesses may be adversely affected by factors that include customer resistance to our product brands and distribution system, our failure to retain management and sales personnel, difficulties in converting different information systems to our systems, the size of the acquired business and the allocation of limited management resources among various integration efforts. In addition, the benefits of synergy which we expect at the time we select our acquisition candidates may not be as significant as we originally anticipated. One or more of our acquisition candidates may also have liabilities or adverse operating issues that we fail to discover prior to the acquisition. Difficulties in integrating acquired businesses, as well as liabilities or adverse operating issues relating to acquired businesses, could have a material adverse effect on our business, operating results and financial condition.

Even if acquired companies eventually contribute to an increase in our profitability, the acquisitions may adversely affect our earnings in the short term. Our earnings may decrease as a result of transaction-related expenses we record for the quarter in which we complete an acquisition. Our earnings may be further reduced by

the higher operating and administrative expenses we typically incur in the quarters immediately following an acquisition as we seek to integrate the acquired business into our operations.

Natural disasters, acts of war and terrorist-related events may have a continuing negative impact on our business

We cannot assess with any degree of certainty the future effects on our business of natural disasters and terrorist attacks that have occurred and may occur in the future throughout the world and other responsive actions, including war.

In recent years, natural disasters and terrorist attacks and acts of war have significantly adversely affected general economic and political conditions, increasing many of the risks highlighted in these risk factors. This may have a negative effect on our business and results of operations.

We currently have significant indebtedness and may incur additional indebtedness in the future

At August 31, 2006, our percentage of total debt to total capitalization was approximately 47%. Our total capitalization is the sum of our shareholders' equity, minority interests and borrowings. Some lenders may consider this ratio negatively in their credit decisions. Also, covenants in our lending agreements may occasionally restrict our ability to operate our business in certain ways, including our ability to dispose of our assets, our subsidiaries' abilities to guarantee and borrow money, our ability to incur certain types of debt, our ability to merge or consolidate with other companies or our ability to alter the fundamental nature of our business.

We may incur additional indebtedness in the future, subject to limitations contained in the instruments governing our indebtedness, to finance capital expenditures or for other general corporate purposes, including acquisitions. We cannot assure you that our business will continue to generate cash flow at or above the levels required to service our indebtedness and meet our other cash needs, or that we will be able to obtain credit on terms as favorable as those we enjoy currently if our debt to total capitalization ratio increases. If our business fails to generate sufficient operating cash flow in the future, or if we fail to obtain cash from other sources such as asset sales or additional financings, we will be restricted in our ability to continue to make acquisitions for cash and to invest in expansion or replacement of our facilities, information systems and equipment. Such a failure could have a material adverse effect on our business, operating results and financial condition.

Our profitability or reputation may be affected by various operational risks

Operational risk is inherent in our business and can manifest itself in various ways including business interruption, poor supplier performance, information systems malfunctions or failures, regulatory breaches, human errors, employee misconduct, and/or external fraud. These events can potentially result in financial loss, harm to our reputation and/or hinder our operational effectiveness. Our management attempts to control these risks and keep operational risk at appropriate levels by maintaining a sound and well-controlled environment in light of the characteristics of our business, the markets and regulatory environment in which we operate. Notwithstanding these control measures, operational risk is part of the global business environment in which we operate and we may incur losses from time to time due to these types of risks that could otherwise have an adverse impact on our financial results.

Risks Related to an Investment in our American Depositary Shares (ADSs)

The price of our ADSs and the U.S. dollar value of any dividends will be affected by fluctuations in the U.S. dollar/euro exchange rate

The ADSs trade in U.S. dollars. Fluctuations in the exchange rate between the euro and the U.S. dollar are likely to affect the market price of the ADSs. For example, because our financial statements are reported in euro, a decline in the value of the euro against the U.S. dollar would reduce our earnings as reported in U.S. dollars. This could adversely affect the price at which the ADSs trade on the U.S. securities markets. Any dividend we might pay in the future would be denominated in euro. A decline in the value of the euro against the U.S. dollar would reduce the U.S. dollar equivalent of any such dividend.

You may not be able to exercise preemptive rights for shares underlying your ADSs

Under French law, shareholders have preemptive rights (*droits preferentiels de souscription*) to subscribe for cash for issuances of new shares or other securities giving rights, directly or indirectly, to acquire additional shares on a pro rata basis. Shareholders may waive their preemptive rights specifically in respect of any offering, either individually or collectively, at an extraordinary general meeting. Preemptive rights, if not previously waived, are transferable during the subscription period relating to a particular offering of shares and may be quoted on the exchange for such securities in Paris. United States holders of ADSs may not be able to exercise preemptive rights for the shares underlying their ADSs unless a registration statement under the United States Securities Act of 1933, as amended, is effective with respect to such rights or an exemption from the registration requirements thereunder is available. At the time of any rights offering, we intend to evaluate the costs and potential liabilities associated with any such registration statement, as well as the indirect benefits of enabling the exercise by the holders of ADSs of the preemptive rights associated with the shares underlying their ADS, and any other factors we consider appropriate at the time, and then to make a decision as to whether to file such a registration statement. We cannot guarantee that any registration statement would be filed, or, if filed, that it would be declared effective. If preemptive rights cannot be exercised by an ADS holder, The Bank of New York, as depositary, will, if possible, sell such holder's preemptive rights and distribute the net proceeds of the sale to the holder. If the depositary determines, in its discretion, that such rights cannot be sold, the depositary may allow such rights to lapse. In either case, ADS holders' interest in us will be diluted, and, if the depositary allows rights to lapse, holders of ADSs will not realize any value from the granting of preemptive rights.

Holders of ADSs may be subject to additional risks related to holding ADSs rather than shares

Because holders of ADSs do not hold their shares directly, they will be subject to certain additional risks, including those listed below.

In the event of a dividend or other distribution, if exchange rates fluctuate during any period of time when the depositary cannot convert euro into U.S. dollars, the ADS holder may lose some or all of the value of the distribution. There can be no assurance that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, or that any of such transactions can be completed within a specified time period.

ADS holders will generally have the right to instruct the depositary to exercise the voting rights for the shares represented by the ADSs if we ask the depositary to ask the holders for instructions. There can be no guarantee, however, that ADS holders will receive voting materials in time to instruct the depositary to vote. It is possible that ADS holders, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote at all.

ADS holders may not receive copies of all reports from the depositary or us; these holders may have to go to the depositary's offices to inspect any reports issued or review the reports on the internet.

You may not be able to effect claims or enforce judgments brought against us for alleged violations of the U.S. securities laws

We are a *société anonyme* organized under the laws of France. A majority of our directors and officers are non-U.S. residents, and a substantial portion of our assets and the assets of our directors and officers are and we expect will continue to be located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon us or most of these persons or to enforce judgments against us or them in United States courts. Furthermore, there is doubt as to the enforceability in France, in original actions or in actions for the enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States. French courts may not have the requisite jurisdiction to grant the remedies sought in an original action brought in France based solely upon the U.S. federal securities laws.

In order to effectively enforce judgments of U.S. courts rendered against our French officers and directors in France, these persons would have to waive their rights under Article 15 of the French Civil Code, which provides

that citizens of France may be sued only in France unless they otherwise consent. We believe that none of these persons has waived this right with respect to actions predicated solely upon U.S. federal securities laws. Furthermore, actions in the United States could be adversely affected under certain circumstances by the French law of July 26, 1968, as modified by a law of July 16, 1980, which may preclude or restrict the gathering of evidence in France or from French persons in connection with such actions.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We are a leading global provider of services in two primary business areas: Food and Facilities Management Services and Service Vouchers and Cards. The Food and Facilities Management Services business is segmented into four geographic regions.

In the Food and Facilities Management Services business, which accounted for approximately 97% of our total revenues in fiscal 2006, we are a leading global provider of outsourced food and facilities management services to businesses, public agencies and institutions, long-term and short-term healthcare facilities, universities and primary and secondary schools. Within our Food and Facilities Management Services business, we also provide many of the foregoing services to temporary and remote sites of our clients' operations, specifically those affiliated with oil and gas recovery, major construction projects and mining. Our river and harbor cruises activity operates in various markets and provides tourist excursions and upscale dinner cruises for individuals and corporate consumers alike. In the fiscal year ended August 31, 2006, we had revenues of approximately €12.4 billion from our Food and Facilities Management Services business, operating through approximately 28,300 individual outlets in 80 countries. Food services include food and beverage procurement and preparation, as well as the operation and maintenance of food service and catering facilities, generally on a client's premises. Facilities management services include physical plant operations and maintenance, energy management, groundskeeping, housekeeping, custodial and janitorial, technical maintenance, on-site laundry and an evolving suite of other services for which our clients have identified a need. Our Service Vouchers and Cards business, which had revenues of €373 million in fiscal 2006, primarily issues and manages the provision of paper and debit-card vouchers to our clients' employees for food, products and services and the provision of various welfare benefits from government clients to their constituents.

Our chairman, Pierre Bellon, launched the company in 1966 in Marseille, France, by providing food service to employee restaurants. Since our founding, we have been focused on growth, especially organic growth. By 1968, we began operating in the Paris area, and we expanded our operations internationally in 1971 with a food services contract in Belgium. Between 1971 and 1993, we continued our international growth and the development of our facilities management services with the development of our Remote Sites business in Africa and the Middle East, the extension of our Service Vouchers and Cards business into Belgium and Germany, and the expansion of our business into other parts of Europe and Asia and overseas into North America, Latin America and South Africa.

Since 1995, we have rapidly expanded our worldwide presence through organic growth and acquisitions. Our acquisition of Gardner Merchant in 1995 made us the world's largest contract food services company, based on annual revenues, gave us a significant presence in the United Kingdom and the Netherlands and strengthened our operations in North America. In January 1996, we acquired a minority interest in Partena (now known as Sodexo Scandinavia), strengthening our position in the Nordic countries. Currently, we hold 100% of the outstanding capital stock.

In Latin America, the acquisitions of Cardapio in Brazil in 1996, a stake in Luncheon Tickets in Argentina in 1998 and Refeicheque in Brazil in 1999 increased our share of the worldwide service vouchers and cards market. Globally, our annual revenues in this activity are second only to Accor.

In March 1997, we acquired 49% of Universal Services in the United States, and in January 2000 we acquired the remaining stake, forming Universal Sodexo, the world market leader in Remote Sites operations.

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In 1998, our North American subsidiaries and Marriott Management Services combined, with Sodexo Alliance holding just under half of the resulting company's share capital. In connection with this transaction, Sodexo

Alliance contributed an additional U.S. \$304 million. The transaction created the largest North American Food and Facilities Management services company based on annual revenues, known as Sodexo Marriott Services, Inc., and almost doubled the size of our operations by adding annual revenues of \$3.2 billion (based on 1997 stand-alone revenues) and over 3,000 clients in North America.

In June 2001, we completed a transaction by which we acquired the remaining interest in Sodexo Marriott Services, Inc. ("SMS", now known as Sodexo, Inc.) for approximately \$1.3 billion. In the fourth quarter of fiscal 2001, we acquired 100% of the capital stock of the Wood Company ("Wood Dining Services"), a company doing business as Wood Dining Services, and 60% of the capital stock of Sogeres. We exercised our option to purchase the additional 40% of the capital stock of Sogeres in November 2001. The total cost for all of the capital stock of both companies was \$521 million, a portion of which was paid in the fourth quarter of fiscal 2001 and the balance of which was paid at the time the remaining shares of Sogeres were acquired in the first quarter of fiscal 2002. Prior to the acquisition, Sogeres had been our fourth-largest competitor, based on revenues, in the French outsourced catering market, operating primarily in Paris, the French Riviera and the Rhône-Alpes region. The acquisition of Wood Dining Services brought a significant regional food service provider into our network, adding over 500 clients and the management of over 10,000 employees across 21 states in the United States.

Since 1983, our shares have been listed on Euronext Paris (formerly the Paris Bourse) and on April 3, 2002, our ADSs were listed on the New York Stock Exchange. In February 1997, our shareholders voted to change our name to Sodexo Alliance, SA, and we were duly re-incorporated as such on February 25, 1997, for a duration of 99 years from this date, the maximum allowed under French law. We are subject to Book II of the French *Code du Commerce* and to Act No. 67-236 of March 23, 1967 concerning *les sociétés commerciales et des groupements d'intérêt économique* (French company law). Except as mentioned above, we and our subsidiaries have not been a party to any material reorganizations, mergers or consolidations and there have been no material changes in our mode of conducting business or in the types of products produced or services we offer. As of the date of this Annual Report on Form 20-F, there has been no indication of any public takeover offer by any third party respecting our shares or by us respecting another company's shares, except as described above.

We are headquartered in Paris, France and our registered office in France is 3, avenue Newton, 78180 Montigny-le-Bretonneux. Our general telephone number is 011-33-1-30-85-75-00. Our authorized U.S. representative is Richard Macedonia, and our agent for service of process in the U.S. is Robert A. Stern, Sodexo, Inc., 9801 Washingtonian Boulevard, Suite 1234, Gaithersburg, MD 20878.

Acquisition and Capital Expenditures

The following table sets forth our acquisition and capital expenditures for fiscal 2005 and 2006.

	Fiscal year ended August 31,	
	2006	2005
	(millions of euro)	
Property, plant and equipment and client investments	207	162
Acquisitions, net of cash in acquired entities	30	3
Total	237	165

We estimate that our consolidated capital expenditures for fiscal 2007 will be approximately 2% of our revenues. This estimate is set yearly and is based on commercial, technical and economic factors such as client demand and the availability of equipment and building space. Capital expenditure estimates remain subject to the finalization of services and other client contractual terms relating to these expenditures.

Property, Plant and Equipment

Approximately two-thirds of our property, plant and equipment capital expenditures involve the purchase of catering equipment used on client premises and certain boats used in our river and harbor cruises activity. The remaining portion of our capital expenditures relates to internal items such as information technology and vehicles used to support our operations. We generally use our clients' premises for food services, and therefore our property, plant and equipment capital expenditures are limited. We do, however, use trucks owned or leased by us to deliver food to the premises of our clients in certain markets.

Acquisitions and Divestitures

Our material acquisition expenditures and divestitures since August 31, 2003 are highlighted below.

In March 2004, the Group, through its subsidiary Sodexo Pass do Brazil sold a subsidiary, Medcheque. The company was created in 1997 and its core business was the sale of medical-cards in Brazil. A loss on the disposal of €6 million (€3.7 million net of tax) was recorded as an exceptional expense in fiscal 2004.

During fiscal 2004 we acquired several subsidiaries, including the remaining minority interests in Astilbe and Luncheon Tickets, for a total expenditure of €82 million.

During fiscal 2006 we acquired 55% of the shares of the Lido, a cabaret located on the Champs Elysees in Paris, 100% of Ticket Total, a service vouchers and cards company in Argentina and bought out the minority shareholders in Altys in France for a total expenditure of €51 million.

During fiscal 2006 we disposed of our Spirit Cruises subsidiary in the United States, for gross proceeds of U.S. \$43 million.

Ongoing capital expenditures for property, plant and equipment are expected to be funded from operating cash flows. Acquisition expenditures may be financed through a combination of subsidiary operating cash flows, investment cash flows, borrowings from financial institutions and other sources, including debt and equity issuances.

B. Business Overview

General

Our operations can be divided into two broad businesses: Food and Facilities Management Services and Service Vouchers and Cards. Food and Facilities Management Services is our most significant business and accounted for 97% of our revenues for the fiscal year ended August 31, 2006. Approximately 44% of our revenues in this business were generated from our North American subsidiaries. The Service Vouchers and Cards business accounted for 3% of our revenues in fiscal 2006. Within the Food and Facilities Management Services business, we

separate our operations into four geographic regions: North America, Continental Europe, the United Kingdom and Ireland, and the rest of the world.

The tables set forth below summarize certain financial information for these activities for the fiscal years ended August 31, 2006 and 2005.

	Fiscal year ended August 31,		change (euro)	% change
	2006	2005		
		(in millions of euro)		
Revenues by Activity				
Food and Facilities Management Services				
North America	5,479	5,004	475	9.5%
Continental Europe	4,148	3,922	226	5.8%
United Kingdom and Ireland	1,370	1,302	68	5.2%
Rest of the World	1,434	1,166	268	23.0%
Total	12,431	11,394	1,037	9.1%
Service Vouchers and Cards				
Continental Europe	182	165	17	10.3%
United Kingdom and Ireland	8	6	2	33.3%
Rest of the World	183	134	49	36.6%
Total Services Vouchers and Cards	373	305	68	22.5%
Elimination of intragroup revenues	(6)	(6)	0	□
Total revenues	12,798	11,693	1,105	9.4
Operating profit by Activity				
Food and Facilities Management Services				
North America	277	160	117	73.6%
Continental Europe	203	199	4	2.0%
United Kingdom and Ireland	42	16	26	158.7%
Rest of the World	28	35	(7)	(22.1%)
Total	550	410	140	33.9%
Service Vouchers and Cards	113	78	35	45.1%
Operating profit, excluding corporate expenses	663	488	175	35.9%
Corporate expenses	(58)	(38)	(20)	51.4%
Total	605	450	155	34.4%

Strategy

Since our founding in 1966, our ambition has been to satisfy the expectations of clients, employees and shareholders alike. Accordingly, we have focused on a growth strategy to meet and match each of these expectations. Further, our vision is to be the premier global outsourcing expert in quality of life services. In pursuing this vision, we have focused on the following key priorities:

Accelerate profitable organic growth. Organic growth represents our preferred and most profitable growth alternative as the outsourced food and facilities management services and service vouchers and cards markets in which we operate continues to expand. Organic growth represents the increase in revenues excluding acquisitions and disposals and at constant exchange rates. This expansion stems from the worldwide trend towards outsourcing of non-core functions, including food and facilities management services, as enterprises increasingly make strategic decisions to focus on their core businesses and seek service delivery and cost efficiencies. We seek to be in close proximity to our clients, thereby allowing us to anticipate and satisfy their needs promptly with service solutions tailored to their specific situation.

We expect to find opportunities for organic growth by:

- implementing a wider and more profitable service offering, by expanding our integrated facilities management offering (including building management and maintenance, business support, technical (Hard FM) and other ancillary services to our new and existing client base segments and sub-segments).
- improving client retention through the reinforcement of client relationships and the implementation of related initiatives including Clients for Life®, and
- targeting the segments and sub-segments with the lowest outsourcing rates; in particular, in the healthcare and education markets, and by improving our ability to manage large multinational accounts as we strengthen our organization throughout the world.

To supplement organic growth, we may also from time to time, across our business segments, acquire and integrate low-capital intensive, cash-generative businesses as well as form strategic partnerships.

Improve our operations and our operating margin. We are able to provide and continue to develop more competitive services than local, regional and national participants as a result of our economies of scale, our broader range of services and our national and international coverage of large clients. These factors help us at all levels in the management of processes and of our purchasing and delivery logistics.

By leveraging our size across many markets we also:

- increase the exchange and transfer within our organization of [best practices] pertaining to service offerings, client retention, sales and technology processes, as well as leverage experience gained across the various client segments and markets throughout our operations,
- leverage our experience and brand through cross-segment teamwork between our food and facilities management services and our service vouchers and cards businesses,
- increase site productivity by better coordination of labor scheduling practices and sharing of training costs across markets,
- streamline the use of ingredients we use and coordinate menu planning across closely-situated sites,
- accelerate the leveraging of our procurement and productivity efficiencies and use of common information technology platforms, and
- optimize our organizational efficiency by enhancing synergies within the Group.

We seek to minimize working capital requirements and maximize free cash flow. To this end, we implement measures to control internal capital spending, set targets for lower client credit, manage inventories and link bonuses for executives and management teams to the achievement of clearly stated targets at all levels of our organization.

We are continuing to enhance our global intranet aimed at facilitating the exchange of best practices, ideas and procedures throughout our entire network. We have made, and will continue to make, significant investments in our information technology systems because we believe that the use of such systems for menu planning, the accurate measurement and reporting of client and consumer activity, as well as inventory, labor and performance reporting, are central to our continued success. Through our technology infrastructure, we intend to continue to provide our unit managers with tools that help them manage operations efficiently, thereby enhancing the value for our clients of the services we provide.

Capitalize on our human resource strength. We are strongly committed to the development and promotion of our staff and invest in our human capital. The human resources department prepares plans and programs to detect, prepare, train and globalize tomorrow's teams. It is supported in this role by the Sodexho Management Institute, our internal management training program.

Diversity is a business imperative and responsibility grounded in our values of service, progress and teamwork. By valuing and managing workforce and supplier diversity, we endeavor to leverage the skills and abilities of all employees and suppliers in order to increase employee, client and customer satisfaction.

Ensure compliance. At the beginning of fiscal 2004, a groupwide initiative known internally as the CLEAR Project (Controls for Legal Requirements and to Enhance Accountability and Reporting) was initiated, in order to provide assurance that the Group's internal controls are documented and effective. The CLEAR Project is sponsored by the CEO and the CFO of Sodexho Alliance, and has the support of the Board of Directors, the Executive Committee and the Operational Committee of the Group, all of whom are regularly updated on the project's progress. In addition, the project is coordinated with the Group's external auditors to provide assurance with respect to the propriety of the methodology adopted by the project teams as well as compliance with the auditor's reporting requirements. Also see "Item 15" below. In addition, in order to reinforce the skills and competencies of its financial teams, the Group has successfully recruited and will continue to recruit a number of additional finance and accounting personnel. Our Group Senior Vice President, Internal Audit, who reports to our Chairman, continues to reinforce our central audit function through his oversight in the following areas: the enhancement of the department's staffing and the development of a risk-based approach to audit planning. Our internal procedures, delegation and contract review policies are regularly reviewed and updated. A summary of risks and financial commitments is presented regularly to the Audit Committee by Group management.

Our disclosure committee regularly reviews annual and semi-annual reports, financial press releases, our Annual Report on Form 20-F, and other information presented to shareholders. Existing disclosure procedures and controls are evaluated and updated regularly as appropriate.

Food and Facilities Management Services

Overview

We are a global food and facilities management services contractor. In the fiscal year ended August 31, 2006, our revenues in this activity were approximately \$12.4 billion. In fiscal 2006, we operated through approximately 28,300 individual outlets in 80 countries. None of our clients represents more than 2% of our total revenues.

To serve our clients and increase revenues, we pursue a market segmentation strategy based on client needs. The industry markets in which we operate are Business and Industry (which includes both corporate clients and government entities), Healthcare, Education and Remote Sites. Within each of these industry markets, we have identified sub-segments which permit us to target and address client requirements promptly and efficiently.

Business and Industry. The Business and Industry market accounted for \$6.1 billion of our Food and Facilities Management Services business revenues in fiscal 2006, delivered at over 18,000 sites, representing 49% of our total Food and Facilities Management Services business revenues. Traditionally, this market has been comprised of corporate customers, whom we provide with food services as well as a broad range of services including reception, mailroom, cleaning and facilities maintenance. Over the last 40 years, we have expanded the range and depth of our clients and services to include the following:

- providing Food and Facilities Management Services to government agencies and other public clients, such as the defense sectors including those in the United States, the United Kingdom and Australia;
- providing food and hospitality services at prestige occasions, which include some of the world's most prominent tourist, sports and recreational events like the Royal Ascot horse races, the Paris-Bercy and Roland-Garros Tennis Tournaments or the upcoming 2007 Rugby World Cup to be held in France;
- providing a full range of executive dining services and the management of conference centers for our corporate clients; and

- providing food and custodial services, maintenance as well as professional training and rehabilitation services to correctional facilities in a number of locations in selected countries outside of North America.

In our River and Harbor Cruises activity, we have selectively built a presence as a premier boat operator in France and the United Kingdom, based on annual revenues. This activity is more capital intensive than the remainder of our businesses.

Healthcare. For fiscal 2006, revenues in the Healthcare market totaled \$3.3 billion at approximately 5,800 sites, representing 26% of our total Food and Facilities Management Services business revenues. In this market, we provide catering services, vending, patient meal delivery, patient transport, room upkeep, cleaning, groundskeeping, laundry and maintenance services, to hospitals, clinics, nursing homes, retirement and care centers around the world. In order to better address our clients' needs, we have sub-segmented the Healthcare market into long-term care facilities, primarily for seniors, and acute care facilities, providing services primarily to hospitals and outpatient clinics. Historically, a larger proportion of our business has come from the acute care facilities. However, restructuring in the healthcare industry in recent years has resulted in fewer hospital beds as well as in shorter patient stays, leading the total short-stay market to expand by approximately three percent each year overall, but the outsourced market remains dynamic and is expanding by five percent annually overall. Similarly, long-term trends in caring for the elderly have led the long-stay outsourced market to expand by approximately three percent each year. The Healthcare market has traditionally been more insulated from economic downturns than the Business and Industry market, lending stability to our revenue base.

Education. In fiscal 2006, revenues in the Education market totaled \$3 billion at about 4,400 sites, representing 24% of our total Food and Facilities Management Services business revenues. This portion of our business provides food and facilities management services to educational institutions ranging from nursery schools to universities. Clients choose us to design, manage and equip their food service facilities and to provide a wide range of incidental services. Besides food, we offer vending, laundry, maintenance, groundskeeping, environmental services, day care, mealtime supervision and hospitality services. Like the Healthcare market, the Education market is relatively unresponsive to changing economic conditions and thus contributes to reducing volatility in our revenues.

Remote sites. As of the end of fiscal 2006, we operated the Remote Sites activity on about 1,700 sites around the world and generated revenues of \$745 million. Our primary clients in this activity are oil and gas, construction and mining businesses, to which we offer a wide range of food, hotel, cleaning, technical maintenance, security, groundskeeping, medical surveillance and leisure services, as well as the management of on-site clubs and retail outlets. Clients in the oil and gas industry currently represent approximately two-thirds of our business in this activity. This business tends to be cyclical, depending upon the price of oil and gas, which drives exploration efforts, and the extent of economic growth, which drives consumption of ore or the construction market.

Services Mix

Most of our revenues are generated from food services, but our revenues in the Food and Facilities Management Services business increasingly arise from providing ancillary support and facility management services to our clients, which, together with food service, we refer to as "integrated facilities management". The integrated facilities management market is underpenetrated; we estimate the not-yet-outsourced portion to be over \$400 billion annually worldwide. We expect that the proportion of facilities management services we provide will increase relative to our food services in the medium term.

Food Services. The food services industry is broadly divided among the areas of contract catering, concessions, vending and commercial restaurants. The food services we provide can generally be described as contract catering — that is, the preparation and provision of meals to third parties on behalf of a client, usually on the premises of the client in cafeterias or other on-site facilities. The third parties to whom we supply our food services tend to be either employees of our clients or consumers of other services provided by our clients. Corporate clients request food services for their staff employees and executives, hospitals do so for their patients and visitors, retirement communities for their residents, and schools for their students.

Capital requirements in this business are minimal because of:

- low capital expenditures, as operations are generally conducted at client sites;
- low fixed costs; and
- predictable cash flow from client and customer payments, which reduces working capital needs.

For certain clients, such as primary and secondary schools in France, we use central kitchen areas financed or owned by our clients where we prepare foods for delivery to client sites. We then arrange for delivery of these prepared foods to locations where either our employees or, depending on the contract arrangement, workers hired by the client serve the food to its ultimate consumers. In the majority of cases, however, we prepare and serve the food on-site.

Within this core business, we also provide advice and technical support with respect to the design and installation of food service facilities and the training of catering and other service personnel.

Innovation in this activity is crucial to meeting demand and enhancing our client base. We have, for instance, expanded our core food service business from basic on-site food preparation and service to event catering, take-out, office delivery, off-site meal delivery, and vending. New vending concepts allow teams working during non-business hours to get hot meals at any time during the day or night at a reasonable cost. Small companies without cafeteria facilities can have meals delivered to them on-site or have vending machines installed.

Our ability to attract and retain clients depends not only on the cost, quality and efficiency of our service but also on our ability to gauge and address the preferences of the consumers for the food we serve. Consequently, we see the design, tailoring and innovation of our menu options including the branding of innovative concepts as a key aspect of the services we provide. In the Education market, we have profiled and analyzed different age groups through parent and child interviews, independent market studies and other methods in order to develop optimal food service packages for students. In the Healthcare market, in connection with the long-term healthcare business, we have designed a broader range of purpose-designed services to meet the needs of an ever-growing number of seniors based on an international profile of seniors and their lifestyles we developed, the first of its kind in our industry. In the Business and Industry market, we have adapted the practices of food stations and theme menus to the particular needs of our clients and their employees using our proprietary customer profiling system, *Personix*[®].

Integrated Facilities Management. Recognizing significant value added to our clients in service areas that are not directly related to food is a focus area of our growth strategy. We believe that providing these additional services responds to client demand. As consumers' needs become more sophisticated, clients will continue to seek service contractors who are able to provide solutions for all of their non-core Food and Facilities Management Services on a quality, efficient, competitive basis, putting emphasis on the provider's ability to provide such services directly with their own teams. With years of experience, we have become specialists in the industry sectors of our client segments, and have the expertise to provide ancillary services complementary to our food services that will support the performance of their organizations, while contributing to the Quality of Daily Life for their members. The services we provide fall into three main categories:

- Food and other services tailored to end-users, which are provided on the client's premises. These include our retail food services as well as dry cleaning, newsstands, leisure services and the on-site management of health club facilities and day care centers.
- Soft services, which cover a vast range of services adding value to our clients through the management of peripheral business activities. Reception, mailroom, switchboard, cleaning and janitorial services, security and surveillance and transportation are among the tasks which we perform to ensure the smooth operation of our clients' businesses.

- Building and technical maintenance services, also identified as Hard Facilities Management services, which comprise mechanical and electrical maintenance as well as the technical maintenance operations required to deliver electricity, water, other utilities, heating and ventilation to the various areas on a particular site, or

project/construction management services. In Europe, for example, our subsidiary Altys provides building services to large client accounts such as Cisco in several European countries. In North America, we have developed construction management services for healthcare and/or educational institutions.

The Market for Outsourced Food and Facilities Management Services

We estimate that approximately one-half of food services worldwide currently remain self-operated, and an even greater proportion of other ancillary services is not yet outsourced. We believe that over the past ten years, the portion of outsourced Food and Facilities Management Services has increased steadily and we further believe that this trend will be reinforced by the growing advantages of outsourcing peripheral activities in favor of large, experienced contractors capable of providing higher quality services at a lower cost. Specifically, outsourcing support functions allows potential clients to focus on their organization's core mission while at the same time to:

- improve the quality and consistency of support services through professional management;
- benefit from current, innovative trends in procurement and delivery of these services; and
- improve cost effectiveness through the economies of scale and operational synergies that a specialized provider can achieve.

Recently, outsourcing has particularly grown in the Education and Healthcare markets, where a large number of the services we provide had historically been undertaken by the government or other public institutions. Future growth in this public sector area remains subject to government policies; however, governments have found outsourcing to be a useful tool in attempting to reduce central expenses and budget deficits.

Healthcare represents the largest potential market for Food and Facilities Management Services with outsourcing rates still comparatively low. We estimate that more than half of this market is in short-stay care centers (public and private hospitals) and the remainder in long-term care facilities for the elderly and dependent. On average, we estimate that about one third of this food service market is currently outsourced, with short-stay facilities generally more likely to outsource than long-stay facilities by a ratio of almost two-to-one. An integrated facilities management approach is especially important in the Healthcare market, where pressure on cost structures combined with greater life expectancy and increasingly sophisticated medical technologies has led clients to seek to reduce the cost of services that are not an integral part of their business.

We estimate that the Education market is about one-third outsourced in food service, with about one quarter of private sector institutions and about three quarters of public institutions outsourcing food service. Much of the opportunity for outsourcing in the Education market is concentrated in ten countries. The campus dining marketplace, principally colleges and universities, continues to shift from residential board plans to more retail-oriented operations driven by the growing proportion of non-resident day and evening students on campuses, the changing taste and service preferences of young consumers, and colleges' and universities' desire to provide their students with greater flexibility. Traditional cafeterias are being replaced by food courts and similar retail operations providing greater variety of food selection. We believe that these trends, coupled with cost pressures, lead public and private institutions to consider outsourcing. Over the past three years, outsourcing in the Education market has increased overall.

There are significant growth opportunities also in the Business and Industry market, especially in public sectors such as defense in developed countries and across all sectors in emerging markets.

We estimate the worldwide remote sites services market, which spans five continents, to be approximately \$10 billion per year, and our only global competitor currently is Compass; the remainder of the market is served by many local providers. We believe that new opportunities will develop for service providers as trends in prices for raw materials stabilize and the depletion of reserves in some countries leads to prospecting in new onshore and offshore areas.

The market for integrated facilities management national providers is growing as large corporations are moving toward outsourcing all of their non-core services on a multiple site and multiple service basis. We estimate that only about one-third are outsourced on average, but substantial differences exist from one country to another.

We estimate the outsourcing potential for integrated facilities management is two and a half times greater than that for food services alone. We believe this potential reflects not only low independent contractor penetration but also an increasing trend of clients seeking a single-source solution for their facilities and on-site needs.

Contracts

We use two broad contract types in our food and facilities management services business: profit and loss contracts and management fee contracts. However, many of our contracts contain characteristics of both types of contract. The primary distinguishing feature of each contract type is the amount of financial risk we bear and, conversely, our profit or loss potential. Our revenues under each type of contract may vary substantially depending upon such factors as the type of client facility involved, whether hourly workers are employed by us or by our client, the services requested and the amount of capital, if any, invested by us.

In profit and loss contracts, we generally receive all revenue derived from and bear all expenses incurred in providing our services. Expenses under profit and loss contracts generally include labor and food costs, but they can also include commissions paid to the client, typically calculated as a percentage of revenues made on the client's premises. In some cases, we may agree to pay minimum guaranteed commissions to our clients. We may also receive client subsidies to cover our fixed operating costs. Profit and loss contracts are generally indexed for inflation, although our ability to change prices in response to significant variations in cost may be limited. We believe, however, that the existence of a captive on-site customer group, the relative ease of determining sales volumes and operating margins, standard termination provisions and our broad institutional client base limits and diversifies our risk with respect to these contracts.

In management fee contracts, we receive a fee, which is generally fixed, and we are reimbursed for the operational and administrative expenses we incur. These contracts have varying terms and may in some instances provide for the client to purchase food and labor directly or for us to make such purchases and re-invoice the costs to the client. In either case, our profit potential and risk of loss are generally fixed.

In the Business and Industry market, a reduction in client subsidies combined with pressure on costs has resulted in a move from management fee to profit and loss contracts. In the Healthcare market, industry trends, especially in the United States, away from fee-for-service payments and towards a managed care environment has shifted the risk and burden of cost control from insurance providers to the health care institutions themselves, forcing them to focus not only on the cost component of clinical care but also on the cost of all services, including food and facilities management. Many contracts with healthcare clients condition a portion of our compensation on financial performance objectives as well as other performance measurements by third parties, such as patient satisfaction.

The length of contracts that we enter into with clients varies. The majority of our services are provided under contracts of indefinite term, which are generally subject to termination on three months' notice by either party without cause. Certain client contracts, such as those with universities, hospitals and event catering, which require capital investments on our part, tend to have fixed terms, generally between three and ten years. When we enter into these contracts, we may negotiate a capital investment to help finance facility construction or renovation. Contractually required investments typically take the form of an investment in leasehold improvements and food service equipment. At the end of the contract term or its earlier termination, assets such as equipment and leasehold improvements typically become the property of the client, but generally the client must reimburse us for any undepreciated or unamortized capital expenditures.

Food and Facilities Management Services contracts are generally obtained and renewed either through a competitive process or on a negotiated basis. We selectively bid on contracts to provide services at facilities

within the private and public sectors with contracts in the public sector frequently being awarded on a competitive bid basis

under the requirements of applicable law. Contracts for food services with school districts and other public clients are typically awarded through a formal bid process.

Competition

We face significant competition in the food and facilities management services business from local, regional, national and international outsourced service providers, as well as from businesses, healthcare and educational institutions, and government agencies and institutions that choose to operate their own services following the expiration or termination of contracts with us or with our competitors. We compete on the basis of both price and quality of service and product, although in some cases, generally involving large multinational companies or the government sector, clients put a greater emphasis on price. Our mission is to improve the quality of daily life creating value for our clients, thus avoiding the commoditization of our service offering. Accordingly, we may lose some business to competitors on the basis of price.

Food services. Within the outsourced portion of the global market there is a high level of fragmentation. Only the top two companies, we and Compass (headquartered in the United Kingdom), can be considered truly global enterprises. The next two largest contract caterers, Aramark (headquartered in the United States) and Elior (headquartered in France), are pursuing expansion outside of their home countries through acquisitions, but they still remain largely dependent on their domestic or continental markets. Approximately 20% of Aramark's revenues come from overseas operations and although 40% of Elior's revenues are earned outside of France, it generally does not operate outside of Europe.

The following table shows the ranking of the three leading contract caterers, in terms of revenues, in different market segments, as of August 2006.

	Business & Industry	Education	Healthcare
No. 1	Compass	Sodexho	Sodexho
No. 2	Sodexho	Compass	Compass
No. 3	Aramark	Aramark	Aramark

Source: Broker reports, GIRA

On a national scale, competition levels vary significantly, though concentration is generally higher than on the global stage. High concentration levels are found in some countries such as France and Belgium, where we, together with two other companies have over 65% of the outsourced food service market. By contrast, more fragmented environments tend to exist in some of the other countries in which we operate.

While the markets in which we operate continue to be highly fragmented, in recent years the contract food service industry has experienced multinational expansion. Drivers for expansion come from both the client and supplier side. A larger entity with international coverage is able to tender for the larger contracts and can negotiate better terms from its suppliers. In addition, larger companies can obtain economies of scale and implement best practices across sites. As a result of these benefits of scale, consolidation in the industry has been accelerating, both in terms of the number and size of deals.

Integrated facilities management. As we continue to expand our range of services and develop integrated facilities management offerings, we tend to compete with a broader list of competitors, each also having expanded its service offerings beyond its initial core service. We therefore compete against companies such as ISS, originally a cleaning service provider, and Johnson Controls and Elyo, both originally technical maintenance service providers. For each of these competitors, the proportion of revenues derived from integrated facilities management contracts to total revenues remains secondary to that of its original service offering. The emergence of a market for Integrated Facilities Management, where a broad range of services is combined and primarily delivered by a single service provider, is a recent development and the three competitors mentioned above are

among the most notable players.

Service Vouchers and Cards. In our Service Vouchers and Cards business, we have operations in 29 countries, mainly in Europe and Latin America, and our vouchers are used by 16.4 million people. For fiscal 2006, this activity

issued approximately 1.6 billion vouchers and 3.9 million cards on behalf of more than 310,000 clients and generated revenues of $\square 373$ million. Our vouchers and cards were accepted at around one million locations and the total nominal value, which is not included in our revenues, of vouchers and cards issued in fiscal 2006 was $\square 6.3$ billion. This business generates negative working capital and requires only a modest level of capital investment.

Our Service Vouchers and Cards business currently comprises three categories of services: Daily Life, Motivation and Assistance, where our vouchers and cards are used to purchase items such as groceries, clothing and school books. This business, which focused originally on managing employee fringe benefits for companies, has indeed expanded from reward solutions for employees to controlling and managing welfare benefits allocated by public authorities. Our clients are generally commercial enterprises and community and governmental entities. Revenues from service vouchers and cards activities include the commissions paid by our customers who buy the service vouchers and cards from us and commissions from our affiliated retail outlets where the service vouchers and cards are redeemed. Customer commission revenues are recorded at the time of issuance of the service voucher or card. Affiliate commission revenues are recorded at the time of redemption. Revenues also include interest income from the investment of proceeds from the time of sale of the vouchers and cards to our customers until the time of their redemption, when we must repay our affiliates, generally a one-to-three-month period. Service vouchers and cards are used by businesses of all sizes, primarily in large urban centers, and they frequently carry tax or labor law benefits.

To meet new needs and enhance quality, we are constantly expanding our range of services through research and development in card technology, data processing, security and control systems. Express voucher delivery and personalized voucher pick-up from restaurants both significantly contributed to the efficient handling of approximately 1.6 billion issued vouchers. We are also developing card technology in Europe and Latin America to offer an advanced solution to client businesses and government agencies which require a more secure, comprehensive alternative to vouchers.

We estimate that the global market for service vouchers and cards is more than $\square 60$ billion in issue volume worldwide. We are the second-largest service vouchers and cards business in the world, based on annual revenues. We have only one significant global competitor, Accor. Significant drivers in the industry include product development, geographical expansion, name recognition (branding) and the synergy effects of building large networks of affiliates. Our ambition in this activity is to become the global leader by offering the best perceived quality services in the market. To maintain and improve quality services, we focus on the development of new services by fostering innovation, developing new services and enhancing our know-how in new technologies.

Raw Materials

Raw materials essential to the operation of our business are obtained principally through local and national food distributors in each of the jurisdictions in which we operate. As such, we are subject to fluctuating prices and availability for food and other raw materials, both of which can vary by location. Furthermore, because of the relatively short storage life of inventories, especially produce, limited storage facilities at customer locations and our client requirements for freshness, a minimum amount of inventory is maintained at customer locations at any given time. All materials and services that we purchase are available from more than one supplier, and we believe that the loss of any supplier would not have a material impact on our business.

Since our inception in 1966, we have been highly proactive in addressing food safety and health concerns. For example, in November 1999, we formed a Food Safety Committee in France to anticipate and manage food safety risk. Comprising four prominent professors and medical doctors specialized in nutrition and food safety, this committee is supported by the technical resources of the Institut Pasteur de Lille, a Sodexho partner for more than 20 years, and the French Food Safety Agency. Similar food safety programs are continuously being developed and extended across Europe and in other countries. End-to-end traceability has been introduced in all of the procurement channels, whether for meat or other products.

Seasonality

Although revenues of our business as a whole do not tend to fluctuate significantly by season, certain market segments have been characterized historically by seasonal fluctuations in overall demand for services, notably the Education market of our Food and Facilities Management Services business and our River and Harbor Cruises operations. In the Education market, revenues and operating performance depends on the school, college and university calendar in each country, with low activity levels during the long vacation periods, principally in our fiscal fourth quarter. Our River and Harbor Cruises operations generally benefit from increased tourism levels in the fourth quarter and may be reduced to restricted operating levels in our fiscal second and third quarters as a result of inclement weather.

Regulation

The following description of the regulations to which we are subject does not purport to be complete and is qualified by reference to the relevant provisions of applicable law in the jurisdictions in which we operate.

We are subject to various governmental regulations throughout the world in the course of our operations. These regulations govern such matters as employment, including wages; environmental protection; human health and safety; and the bidding for and performance of contracts with governmental entities. To ensure compliance with these regulations, our facilities and products are subject to periodic inspection by authorities at a local and national level in many jurisdictions in which we operate.

The most significant of the regulations which apply to our business relate to the handling, preparation and serving of food, and impose standards for food temperature, kitchen cleanliness and employee hygiene, among other things. In addition, certain of our operations are subject to licensing requirements with respect to serving alcoholic beverages, including restrictions on individuals to whom alcoholic beverages may be served. Various state agencies and governmental entities have also imposed nutritional guidelines and other requirements on us at some of the education and corrections facilities we serve.

Many of our subsidiaries, especially those in countries which are members of the European Union, must comply with employment regulations designed to protect hourly, part-time and full-time employees. These regulations govern working hours, wages, unfair dismissal and discrimination. Furthermore, pursuant to European Union regulation and subject to certain limitations and exceptions, in the event we are assigned a contract for food or facilities management services at a site within the European Union from another contractor or from a client, we are required to hire all workers who were employed at that site and were on the previous employer's payroll to provide such services.

We have installed various internal controls and procedures designed to maintain a high level of compliance with these regulations, but we cannot ensure that we are in full compliance at all times with all applicable laws and regulations. The cost of our compliance programs is not material, but it is subject to additions to or changes in legislation, changes in regulatory implementation, changes in the interpretation of applicable regulations and sometimes subject to changes in the facilities of our clients. If we fail to comply with applicable laws in any jurisdiction in which we operate, we could be subject to civil remedies, including fines and injunctions, as well as potential criminal sanctions.

Marketing

In those countries in which we have significant operations, our sales and strategic planning teams are focused on developing particular client sectors by identifying and pursuing potential new business opportunities, analyzing and evaluating such opportunities together with our operational and financial management and developing specific contract proposals. In addition to our professionals dedicated exclusively to sales efforts, our food, facilities and support field management shares responsibility for identifying and pursuing new sales opportunities, both with the clients for which they are directly responsible and for potential clients in their geographic area of responsibility. In addition, in several of our major operating territories we also have dedicated sales retention teams. Our sales retention teams participate directly with our operational management teams in

client retention, including conducting

client satisfaction surveys and the review and implementation of account management procedures. We estimate that approximately 1,000 people are involved in sales, strategic planning, sales support and marketing, of which approximately 40% are located in North America.

Our marketing efforts are directed both toward increasing our business with existing clients as well as obtaining business from new clients. We regularly develop and offer innovations in products and services for our clients that allow us to grow revenues at existing locations while enhancing value provided to those clients and improving service quality to their customers or employees by tailoring new offerings to their needs. We have a specific process in each country to promote and subsequently implement innovations on a broad scale.

C. Organizational Structure

As of August 31, 2006, we had over 275 subsidiaries in 80 countries. Our operations are managed locally through these subsidiaries, although our central management is at the level of Sodexho Alliance, SA. For a list of our subsidiaries and a description of our interests in them, please see note 7 to our Consolidated Financial Statements.

D. Property, Plant and Equipment

Our principal property and equipment consists of our service equipment and fixtures, computer and office equipment, delivery vehicles and cruise vessels.

Our service equipment and fixtures include vending, commissary, janitorial, maintenance and laundry equipment used primarily in the food and facilities management services business. The vehicles comprise automobiles and delivery trucks used in the food and facilities management services business and cruise vessels used in the operation of the river and harbor cruises activity. The service equipment and fixtures, computer and office equipment, delivery and other vehicles and cruise vessels had an aggregate net book value as of August 31, 2006 of \$226 million.

Our real estate is comprised primarily of office space in several countries, notably France, the United Kingdom and the United States, and had an aggregate net book value of approximately \$139 million as of August 31, 2006. No individual parcel of real estate we own is of material significance to our total assets.

In certain circumstances, we lease office space, computer software and other equipment (primarily kitchen equipment). A discussion of our capital lease policy can be found in note 2 to our Consolidated Financial Statements.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 17 of this annual report. The Group's consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union as of August 31, 2006. With regard to the Group, there are no significant differences between IFRS as adopted by the European Union and IFRS as adopted by the International Accounting Standards Board. IFRS as applied by the Group differs in certain respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Note 8 to our consolidated financial statements in Item 17 describes the principal differences between IFRS and U.S. GAAP, as they relate to us, and reconciles our IFRS consolidated profit and consolidated shareholders' equity to U.S. GAAP as of and for both of the years ended August 31, 2005 and 2006.

The U.S. Securities and Exchange Commission (SEC) has adopted an accommodation permitting eligible foreign private issuers for their first year of reporting under IFRS to file two years rather than three years of reconciliations to U.S. GAAP of statements of income and changes in shareholders' equity. Fiscal 2006 is Sodexho Alliance's first year of reporting under IFRS as published by the International Accounting Standards Board ("IASB"), and this annual report on Form 20-F has been prepared in reliance on the SEC accommodation. As a result, the

operating and financial review covers fiscal 2006 and the comparable fiscal year 2005.

Unless otherwise indicated, the following discussion relates to IFRS information.

The following discussion contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward looking statements. See ["Forward-looking statements"](#) at the beginning of this document.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in the notes to the consolidated financial statements included in this Annual Report on Form 20-F. However, we have identified a number of those accounting policies as described below, including differences with respect to U.S. GAAP as applicable, and estimates which we believe are the most significant to our business operations and to an understanding of our financial statements and related footnotes.

Use of estimates

The preparation of financial statements in accordance with IFRS and in conformity with U.S. GAAP, requires us to make estimates and assumptions which affect the amounts reported for assets, liabilities and contingent liabilities as of the date of preparation of the financial statements, and of revenues and expenses for the period. These estimates and assumptions are re-assessed continuously based on past experience and on various other factors considered reasonable in view of current circumstances, which constitute the basis for assessments of the carrying amount of assets and liabilities. Actual results may differ substantially from these estimates if assumptions or circumstances change. Significant items subject to such estimates and assumptions include provisions for litigation, post-employment benefit plan assets and liabilities, impairment of current and non-current assets, and deferred taxes.

Revenue Recognition

Our revenue recognition policies are substantially the same for both IFRS and U.S. GAAP.

In accordance with IAS 18, revenues reported by Sodexho relate to the sale of services in connection with the ordinary activities of fully-consolidated companies as follows:

- **Food and Facilities Management Services:** all revenues earned pursuant to the contract, taking into account whether Sodexho acts as principal (the substantial majority of cases) or agent;
- **Service Vouchers and Cards:** revenues comprise commissions received from clients and affiliates, financial income from the investment of surplus cash generated by the specialized activity, and breakage from vouchers and cards that expire unredeemed subject to specific laws in certain jurisdictions.

In accordance with IAS 18, revenues are measured at the fair value of the consideration received or receivable, net of discounts and rebates and of VAT and other taxes. Revenues are recognized when it is probable that future economic benefits will flow to Sodexho and these benefits can be measured reliably. No revenue is recognized if there is significant uncertainty about recoverability of the costs incurred or to be incurred in meeting the service obligation. Food and facilities management service revenues are recognized when the service is rendered.

Business Combinations

Accounting policies for business combinations and impairment of intangible assets and goodwill differ between IFRS and U.S. GAAP, primarily because acquisitions made prior to September 1, 2004 were not restated for IFRS (except with respect to the recognition of goodwill in the currency of the acquired entity) and also due to differences in the manner in which impairment of goodwill is measured. U.S. GAAP accounting policies for business combinations and impairment of intangible assets and goodwill are described at the end of this section.

The Group accounts for acquisitions of subsidiaries using the purchase method. The cost of an acquisition corresponds to the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus any costs directly attributable to the

acquisition. On first-time consolidation of a subsidiary or equity interest, the fair value of all the identifiable items acquired is measured in the currency of the acquired entity.

In accordance with IFRS 3, adjustments may be made to provisional values of identifiable assets and liabilities as a result of ongoing due diligence or upon receipt of additional information. If these adjustments arise within 12 months following the date of acquisition, they are recognized as a retrospective adjustment to the goodwill on the acquisition. Once this 12-month period has elapsed, the effect of any adjustments is recognized in the income statement unless it involves the correction of an error or relates to deferred tax assets not recognized in connection with the acquisition because their recovery was considered uncertain. In this case, the goodwill value is reduced by the amount that would have been recorded if the tax asset has been recognized at the time of the acquisition.

Any excess of the cost of an acquisition over Sodexho's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the acquisition date is recognized as goodwill in the balance sheet. Goodwill is not amortized, but is tested for impairment at least annually, and whenever there is an indication that it may have become impaired. Any impairment losses are recognized in the income statement, and may not be reversed subsequently. Goodwill arising on the acquisition of associates recorded under the equity method is included in the value of the investment in the associate and is tested for impairment as it relates to the equity method investment itself.

Goodwill has an indefinite useful life. It is tested for impairment (i) whenever there is an indication that it may have become impaired, and (ii) annually, as of May 31. The results of the impairment tests conducted as of May 31 are reassessed using data as of August 31. Assets that do not generate cash inflows that are largely independent of those from other assets, and hence cannot be tested for impairment individually, are grouped together in Cash Generating Units (CGUs). For the purpose of impairment tests, the Group has generally identified its CGUs on a by-country by-activity basis. The assets allocated to each CGU comprise goodwill, non-current assets, and net working capital. The main indication that a CGU may be impaired is a significant decline in its operating profit.

An impairment loss is recognized in the income statement when the carrying amount of an asset or CGU is greater than its recoverable amount. The recoverable amount is the greater of:

- fair value less costs to sell, i.e. the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal;
- value in use, i.e. the present value of the future cash flows expected to be derived from continuing use and ultimate disposal of the asset or CGU.

The value in use of CGUs is estimated using after-tax cash flow projections based on three-year business plans prepared by management and extrapolated beyond this three-year period. The management of Sodexho Alliance and its subsidiaries prepare gross profit forecasts on the basis of past performance and expected market trends. The growth rate used beyond the initial three-year period reflects the growth rate for the business sector and region involved. Expected future cash flows are discounted at the average cost of capital of the CGU. The growth and discounting rates used for impairment tests during the period are provided in the notes to the consolidated financial statements.

An impairment loss recognized in respect of a CGU is allocated initially to reducing the carrying amount of any goodwill allocated to that CGU, and then to reducing the carrying amount of the other assets of the CGU in proportion to the carrying amount of each asset.

Business combinations and intangible assets □ U.S. GAAP

As described above, business combinations effected prior to September 1, 2004 (date of first-time application IFRS) were not restated retrospectively with respect to IFRS 3. The market share intangible asset previously

recognized under French GAAP was reclassified to goodwill at that time, as permitted by IFRS 1.

Under U.S. GAAP, all business combinations are accounted for as purchases. In accordance with SFAS No. 141, *Business Combinations*, the cost of an acquired company was assigned to the tangible and identifiable

intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. In accordance with U.S. GAAP, customer relationships, trademarks and software intangible assets were identified with respect to our acquisitions. As such, for U.S. GAAP purposes, a portion of the amount allocated to goodwill under IFRS was allocated to these identified intangible assets. The remaining excess of the cost of the acquired company over the fair value of the net assets acquired is recorded as goodwill. The allocation of purchase price to intangible assets other than goodwill requires management to make estimates with respect to the fair value of those intangible assets, which fair value is largely dependent on assumptions utilized in the valuation methodology, including estimates of future cash flows and appropriate discount rates. A deferred tax liability is recorded with respect to all intangible assets except goodwill.

For U.S. GAAP purposes, we comply with SFAS No. 142, *Goodwill and Other Intangible Assets*. In accordance with SFAS 142, we do not amortize goodwill or indefinite-lived intangible assets. All other intangible assets, including customer relationships, trademarks and software, are amortized over their estimated useful lives. SFAS 142 also requires us to evaluate our goodwill and identifiable intangible assets with indefinite lives for impairment at least annually and more frequently if specific events indicate that an impairment in value may have occurred. This evaluation requires management to make assumptions with respect to the identification of its reporting units as well as the estimates of future cash flows and appropriate discount rates, in order to determine the fair value of the reporting units so identified. U.S. GAAP differs from IFRS in that under U.S. GAAP, goodwill is assigned to a reporting unit of the business upon acquisition. A reporting unit, which may differ from a CGU (the reporting unit is likely to be at a more aggregated level), is an operating segment or one level below an operating segment. Under U.S. GAAP, there was no impairment charge related to goodwill for the year ended August 31, 2006.

SFAS 144 (SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* through fiscal 2003) requires that we review our identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable (a "triggering event"). The review for recoverability requires us to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss may be recognized, which is measured based on the fair value of the asset. Management is required to exercise judgment in the determination of whether a triggering event has occurred as well as in the development of the assumptions used to estimate future cash flows and determine fair value, as needed. Impairments recognized under U.S. GAAP are not reversed in subsequent periods.

Provisions and loss making contracts

A provision is recorded if (i) an entity has a legal or constructive obligation at the balance sheet date, (ii) it is probable that settlement of the obligation will require an outflow of resources, and (iii) the amount of the liability can be reliably measured. Provisions primarily cover commercial, employee-related and tax-related risks and litigation arising in the course of operating activities, and are measured in accordance with IAS 37 using assumptions that take account of the most likely outcomes.

A provision for onerous contracts is established where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

Provisions □ U.S. GAAP

Under U.S. GAAP, provisions for contingencies and losses (contingent liabilities) are recognized for specific existing risks when the related loss is both probable and estimable and, in certain specific situations such as business combinations and restructurings, when certain additional criteria are met. If a loss is determined to have been incurred and management is able to reasonably estimate the amount of the loss, an amount must be accrued for the loss. Where the amount of the probable loss is determined within a range of possible outcomes and when no amount within the range is considered to be a better estimate than any other amount, the minimum amount in the range is required to be accrued.

Under both IFRS and U.S. GAAP, the recording of provisions requires management to exercise significant judgment in determining the timing of recognition and amount of recorded provisions.

Employee benefits

Defined benefit plans are measured using actuarial valuations. The Group uses the projected unit credit method as the actuarial method for measuring its post-employment benefit obligations, on the basis of the national or company-wide collective bargaining agreements effective within each entity. Factors used in calculating the obligation include length of service, life expectancy, salary inflation, staff turnover, and macro-economic assumptions specific to countries in which Sodexho operates (such as inflation rate, rate of return on plan assets and discount rate).

The Group elected to early adopt the amendment to IAS 19, effective August 31, 2005. Actuarial gains and losses arising at each balance sheet date are therefore recognized directly in shareholders' equity without affecting the income statement.

If benefits under an existing plan are amended or a new plan is established, past service cost relating to vested benefits is recognized in the income statement, and past service cost relating to benefits not yet vested is recognized on a straight line basis over the average residual vesting period.

The accounting treatment applied to defined-benefit plans is as follows:

The obligation, net of plan assets, is recognized as a non-current liability in the balance sheet if the obligation exceeds the plan assets and the unrecognized past service cost.

If the value of plan assets exceeds the obligation under the plan, the net amount is recognized as a non-current asset. Overfunded plans are recognized as assets only if they represent future economic benefits that will be available to Sodexho. Where the calculation of the net obligation results in an asset for Sodexho, the amount recognized for this asset may not exceed the total of the unrecognized past service cost plus the present value of all future refunds and reductions in future contributions under the plan.

The expense recognized in the income statement comprises:

current service cost, amortization of past service cost, and the effect of any plan curtailments or settlements, all of which are recorded as operating items;

the effect of discounting and the expected return on plan assets, which are recorded in financial income and expense.

Sodexho contributes to multi-employer plans, primarily in Sweden and the United States. These plans are accounted for as defined-contribution plans, as the information provided by the plan administrators is insufficient for them to be accounted for as defined-benefit plans.

Other long-term employee benefits are measured in accordance with IAS 19. The expected cost of such benefits is recognized as a non-current liability over the employee's period of service. Actuarial gains and losses are recognized immediately in the income statement.

Employee benefits – U.S. GAAP

Under U.S. GAAP, pension and post-retirement benefits are accounted for using the methodologies prescribed by SFAS 87 and SFAS 106, respectively. Both the projected unit credit valuation method and the methodologies prescribed by SFAS 87 and SFAS 106, which are substantially similar, require the use of actuarial assumptions, including the discount rate, the rate of compensation increase and expected long-term rate of return on plan assets. These assumptions are determined by management and require management to exercise considerable

judgment.

The treatment under IFRS differs from that under U.S. GAAP, because in the transition to IFRS, all accumulated actuarial gains and losses were recorded in the opening balance sheet as of September 1, 2004. In addition, U.S. GAAP does not permit the recording of actuarial gains and losses in each period directly in shareholders' equity.

Derivative Financial Instruments

The Group's policy is to finance acquisitions in the currency of the acquired entity, generally at fixed rates of interest. The majority of the Group's variable-rate borrowings are converted to fixed-rates using interest rate swaps. In most cases where borrowings are made in a currency other than that of the acquired entity, currency swaps are contracted.

As required by IAS 39, these derivative financial instruments are initially recognized in the balance sheet at fair value, as current financial assets or liabilities. Subsequent changes in the fair value of derivative instruments are recognized in the income statement, except in the case of instruments that qualify as cash flow hedges. In the case of cash flow hedges, the necessary documentation is prepared at inception and updated at each balance sheet date. Gains or losses arising on the effective portion of the hedge are recognized in equity, and are not recognized in the income statement until the underlying asset or liability is realized. Gains or losses arising on the ineffective portion of the hedge are recognized immediately in the income statement. Sodexho relies on external specialists to determine the fair value of these instruments.

Under U.S. GAAP, the Group's accounting for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, is substantially the same as the treatment under IFRS.

Share-based payments

Some Group employees receive compensation in the form of share-based payments. The Group applies IFRS 2 to account for this compensation. In accordance with the transitional provisions of IFRS 1, only plans with a grant date after November 7, 2002 and not vested as of January 1, 2005 are measured and recognized as employee costs.

The services compensated by these plans are recognized as an expense, with the offset to shareholders' equity, over the vesting period. The amount of expense recognized in each period is determined by reference to the fair value of the options granted as of the grant date, computed using a lattice method. At each balance sheet date, the Group re-assesses the number of options expected to vest. The impact of any change in estimates is recognized in the income statement, with the offset to shareholders' equity.

Share-based payments □ U.S. GAAP

Under U.S. GAAP, effective for fiscal 2006 the Group adopted SFAS No. 123 (R), "Accounting for Stock-Based Compensation," which superseded APB Opinion No. 25, "Accounting for Stock Issued to its Employees." This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, and recognize the cost over the period during which an employee is required to provide service in exchange for the award—the requisite service period. This Statement has been applied to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The Group adopted the Statement as of September 1, 2005 using the modified prospective method. The Group currently and historically has included its financial statements, with a reconciliation to U.S. GAAP, in Item 17 of Form 20-F and therefore was not required to make pro forma disclosures under SFAS 123 related to its stock option plans.

Although the Group has used a lattice method for computing share-based compensation expense under both IFRS and U.S. GAAP there is still a difference related to the transition guidance for the two standards, which resulted in the unvested shares related to plans prior to November 7, 2002 being included in the computation of

the U.S. GAAP charge but not in IFRS. In addition, certain of these shares are deductible for tax purposes upon exercise, and differences arise between IFRS and U.S. GAAP with respect to the computation of deferred taxes and the related allocation between expense and shareholders' equity of windfall tax benefits (excess tax deductions

received on options for which no corresponding expense has been recorded for financial reporting purposes) related to shares vested prior to the adoption of SFAS 123 (R) but exercised subsequent thereto.

Recent Accounting Pronouncements □ IFRS

On August 18, 2005, as part of its project to develop IFRS 7, Financial Instruments: Disclosures, the IASB amended IAS 1: Presentation of Financial Statements to add requirements for disclosures of: the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. These disclosure requirements apply to all entities, effective for annual periods beginning on or after 1 January 2007, with earlier application encouraged.

Also on August 18, 2005, the IASB amended the scope of IAS 39 to include financial guarantee contracts issued. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Under IAS 39 as amended, financial guarantee contracts are recognised initially at fair value. If the financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is likely to equal the consideration received, unless there is evidence to the contrary. These contracts are subsequently recognized at the higher of (i) the amount determined in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognised in accordance with IAS 18 Revenue. The amendment to IAS 39 is effective for annual periods beginning on or after January 1, 2006, with earlier application encouraged.

The Group is currently conducting an analysis of the practical effect of these amendments, and of their potential impact on the financial statements.

Recent Accounting Pronouncements □ U.S. GAAP

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarified the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on de-recognition, measurement, classification, interest and penalties and transition. FIN 48 is effective for the Group as of September 1, 2007. The Group is currently evaluating the impact of adopting FIN 48.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment under U.S. GAAP. SAB 108 requires quantification of errors under both the iron curtain and the roll-over method. SAB 108 permits existing public companies to apply its provisions under U.S. GAAP information either by (i) restating prior financial statements as if the □dual approach□ had always been used or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of the beginning of the year of adoption with an offsetting adjustment recorded to the opening balance of retained earnings. SAB 108 is effective for fiscal years ending after November 15, 2006, which for the Group, will be its fiscal year ending August 31, 2007. The Group is currently evaluating the impact, if any, of adopting SAB 108.

In September 2006, the FASB issued Statement No. 157, □Fair Value Measurement□ (SFAS 157). SFAS 157 defines fair value and establishes a framework for measuring fair value. SFAS 157 does not impose fair value measurement on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurement. SFAS 157 is effective for the Group for the year ending August 31, 2009. The Group is currently evaluating the impact of adopting SFAS 157.

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In September 2006, the FASB issued Statement No. 158 (SFAS 158), Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which is an amendment of FASB Statements Nos. 87, 88, 106, and 132(R). Effective for the Group for the year ended August 31, 2007, SFAS 158 requires an employer to recognize the funded status of defined benefit pension and other postretirement benefit plans as an asset or a liability. The Group is currently evaluating the impact of adopting SFAS 158.

BALANCE SHEET AND INCOME STATEMENT DATA

Our consolidated financial statements and the selected financial data presented below are reported in euro (except for amounts included in the column □U.S. \$□).

	As of and for the year ended August 31,		
	2006	2006	2005
	U.S. \$(2)	□	□
	(in millions, except per-share amounts)		
Income Statement Data			
IFRS amounts			
Revenues	16,448	12,798	11,693
Gross profit	2,366	1,841	1,660
Operating profit	778	605	450
Financial income	69	54	60
Financial expense	(208)	(162)	(172)
Profit for the period before tax	649	505	332
Profit for the period	428	333	221
Profit attributable to equity holders of the parent	415	323	212
Basic earnings per share	2.66	2.07	1.36
Diluted earnings per share	2.63	2.05	1.36
Dividends per share	1.22	0.95	0.75
Balance Sheet Data			
IFRS amounts			
Goodwill	4,656	3,623	3,705
Other non-current assets, including property, plant and equipment	1,379	1,073	980
Working capital (1)	(1,774)	(1,380)	(1,313)
Cash and cash equivalents	1,339	1,042	949
Total assets	10,684	8,314	7,952
Non-current borrowings	2,380	1,852	1,891
Non-current liabilities	729	567	496
Equity attributable to equity holders of the parent	2,771	2,156	2,060
Equity attributable to minority interests	22	17	18
Total shareholders' equity	2,793	2,173	2,078

As of and for the year ended August 31,

	2006	2006	2005	2004	2003	2002
	U.S. \$(2)	□	□	□	□	□
U.S. GAAP amounts						
Revenues	16,448	12,798	11,681	11,502	11,690	12,618
Operating income	513	399	364	386	404	403
Net income	321	250	155	169	148	131

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Earnings per share (basic)	2.06	1.60	0.99	1.08	0.95	0.83
Earnings per share (diluted)	2.04	1.59	0.99	1.08	0.95	0.82
Total assets	10,167	7,911	7,632	7,393	8,028	8,435
Total shareholders' equity	2,082	1,620	1,586	1,542	1,645	1,782

- (1) Working capital is calculated as the net of an asset component (inventories, advances, accounts receivable, other operating receivables, prepaid expenses, assets held for sale, retirement plan assets and other non-current assets, and financial assets of the service vouchers and cards activity) and a liability component (advances received from clients, accounts payable, social and tax liabilities, other liabilities, deferred revenues, retirement and other benefit plan liabilities, and vouchers payable).

- (2) The consolidated financial statements are prepared and presented in euro. The U.S. dollar amounts presented in the table above have been translated solely for the convenience of the reader using the August 31, 2006 2 p.m. ECB time rate quoted by the European Central Bank of \$1 = \square 0.7781.

A. Operating Results

The balance sheets of subsidiaries located outside of the euro zone that operate in a non-hyperinflationary currency environment are translated into euro using exchange rates in effect at the balance sheet dates. The income statements of these subsidiaries are translated at average exchange rates for the period. The difference between the translation of the income statement at average and period end rates, as well as the difference between the opening balance sheet account as translated at beginning and end of period rates, are recorded in shareholders' equity. Transactions in foreign currencies are translated using the exchange rate in effect at the time of the transaction and the related impact is reflected in the income statement.

We have no significant operations in countries with highly inflationary economies.

The Group reports two principal operating segments, which are Food and Facilities Management Services and Service Vouchers and Cards. The Food and Facilities Management Services business is further segmented into four geographic regions. The Group reports the following segments:

Food and Facilities Management Services

- **North America**
- **United Kingdom and Ireland**
- **Continental Europe**
- **Rest of the World**

Service Vouchers and Cards

Overview

Food and Facilities Management Services is our most significant activity, and accounted for approximately 97% of our revenues and 83% of operating profit (before corporate expenses) for the fiscal year ended August 31, 2006. Approximately 44% of our fiscal 2006 revenues in the Food and Facilities Management Services business were generated in North America. The Service Vouchers and Cards business comprised 3% of our revenues and 17% of operating profit (before corporate expenses) in fiscal 2006.

Fiscal Year Ended August 31, 2006 Compared with Fiscal Year Ended August 31, 2005***Consolidated Overview of Revenues and Operating Profit***

Revenues for fiscal 2006 totaled €12.8 billion, a 9.4% increase from fiscal 2005. The increase included organic growth of 6.4% and a favorable foreign currency translation impact of 2.8%, principally arising on revenues denominated in U.S. dollars or reliant on the U.S. dollar exchange rate. Organic growth represents the increase in revenues excluding acquisitions and disposals and at constant exchange rates. The impact of acquisitions (net of divestitures) was 0.2%. Highlights include substantial progress on several fronts in Food and Facilities Management Services, as follows:

- organic growth accelerated in North America (up 5.0%) and in Continental Europe (up 5.2%), driven in particular by the Healthcare and Seniors segments
- the United Kingdom and Ireland returned to organic growth, posting an increase of 4.8%
- organic revenue growth was a robust 16.1% in the Rest of the World (Remote Sites, Latin America and Asia-Australia)

The Service Vouchers and Cards activity also continued its dynamic organic growth, with a 15.9% rise.

We expect our organic growth rate in fiscal 2007 to be comparable to that in fiscal 2006 on a consolidated basis.

Operating profit was €605 million in fiscal 2006 as compared to €450 million in fiscal 2005, an increase of 34.4%. This operating profit includes:

- a gain of €21 million on the sale of Spirit Cruises, a U.S. based river and harbor cruise company;
- the favorable impact of €7 million from the resolution of the U.S. litigation, for which €62 million had been provided in fiscal 2005.

Excluding these items, operating profit increased by 12.6% at current exchange rates and by 9.7% at constant exchange rates. On the same basis, operating margin increased to 4.5%, compared with 4.4% in fiscal 2005.

Analysis of Revenues and Operating Profit

The following table presents, for the periods stated, the variation in revenues and operating profit by activity.

Revenues by Activity (in IFRS)	Fiscal Year Ended August 31,		Change in Revenues	
	2006	2005	€	%
	(in millions of euro, except percentages)			
Food and Facilities Management Services				
North America	5,479	5,004	475	9.5%
Continental Europe	4,148	3,922	226	