SODEXHO ALLIANCE SA
Form 20-F
November 26, 2004

As filed with the Securities and Exchange Commission on November 26, 2004

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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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________

Commission file number: ________________

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 - le - 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
Common Shares, par value (euro)4 per share	New York Stock Exchange*

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* 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]

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares of each class of stock of Sodexho Alliance, SA at August 31, 2004 was:

Title of Class	Number of Shares Outstanding
Common Shares, par value (euro)4 per share..........	159,026,413

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.

[X] Yes [ ] No

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

[X] Item 17 [ ] Item 18

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16 Novembre 2004 - 16h

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

Forward-Looking Statements

Certain statements included in this Annual Report contain information that is forward-looking. Such statements include information regarding our beliefs, estimates 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. The information contained in this Annual Report including, without limitation, the information under the heading "Item 3.D Key Information--Risk Factors" identifies important factors that could cause such differences. It should be recognized that factors other than those expressly set forth in this Annual Report, such as general economic factors and business strategies, may be significant, and that the factors discussed herein may affect us to a greater extent than indicated. 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. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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.

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.

	At end of period(1)	Average rate(2)	High	Low
Euro per U.S. dollar:				
2000...........................	1.1228	1.0263	1.1268	0.9201
2001...........................	1.0919	1.1316	1.2118	1.0477
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

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(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.

Month ended	High	Low
Euro per U.S. dollar:		
May 31, 2004..	0.8473	0.8166
June 30, 2004...	0.8333	0.8118
July 31, 2004...	0.8315	0.8057
August 31, 2004...	0.8345	0.8091
September 30, 2004..	0.8306	0.8059
October 31, 2004..	0.8152	0.7817

On November 23, 2004, the 2 p.m. ECB time rate quoted by the European Central Bank was (euro)0.7640 = U.S. $1.0000, or U.S. $1.3089 = (euro)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 accounting principles generally accepted in France.

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 11. Quantitative and Qualitative Disclosures About Market Risk."

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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 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 a material 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 also varies by geographic location. In addition, broader trends in food consumption, such as the recent concern about beef consumption in Europe, 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

Fixed price contracts with our customers could expose us to losses if our estimates of project costs are too low. A substantial portion of our services contracts is fixed price contracts. The terms of these contracts require us to guarantee 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. 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 support 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 service, 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.

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 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 governmental regulation

Due to the nature of our industry and our listings on the French and the New York stock exchanges, our operations are subject to a variety of international, federal, state, county and municipal laws, regulations and licensing requirements, including regulations governing such areas as labor, employment, immigration, health and safety, consumer protection and the environment. The cost of compliance with these various regulatory regimes has a significant impact on our results of operations, and violations of certain regulations could result in the loss of a client contract or fines. There can be no assurance that additional regulation 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.

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 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 2004, approximately 70% and 66% of our revenues and EBITA, 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 black-outs, 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.

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

At August 31, 2004, our percentage of total debt to total capitalization was approximately 49%. 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, financial and other covenants in our lending agreements may occasionally restrict our ability to operate our business in certain ways. Specifically, our agreements limit 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 (subject to certain exceptions) and our ability to alter the fundamental nature of our business (subject to certain exceptions). In addition, we are obligated under these agreements to maintain certain ratios of net debt to EBITDA and interest to EBITA, which may also impair our ability to enter into certain types of transactions.

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.

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.

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 societe 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 Management Services and Service Vouchers and Cards. The Food and Management Services business is segmented into four geographic regions.

In the Food and Management Services business, which accounted for approximately 98% of our total revenues in fiscal 2004, we are a leading global provider of outsourced food and multiservices to businesses, public agencies and institutions, long-term and short-term healthcare facilities, universities and primary and secondary schools. Within our Food and 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, 2004, we had revenues of approximately (euro)11.2 billion from our Food and Management Services business, operating through approximately 24,900 individual outlets in more than 76 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. Multiservices include physical plant operations and maintenance, energy management, groundskeeping, housekeeping, custodial and janitorial, 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 (euro)249 million in fiscal 2004, 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. We were incorporated on December 31, 1974 as Sodexho, SA (societe anonyme), a French limited liability company, for a duration of 99 years from this date, the maximum allowed under French law. Between 1971 and 1993, we continued our international growth 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 food services 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 Sodexho 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 Sodexho, the world market leader in Remote Sites operations.

In 1998, our North American subsidiaries and Marriott Management Services combined, with Sodexho Alliance holding just under half of the resulting company's share capital. In connection with this transaction, Sodexho Alliance contributed an additional U.S. $304 million. The transaction created the largest North American food and management services company based on annual revenues, known as Sodexho 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 Sodexho Marriott Services, Inc. ("SMS", now known as Sodexho, Inc.) for approximately (euro)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 (euro)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 Rhone-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), since 1998 we have been part of the benchmark index for that exchange, the CAC 40 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 Sodexho Alliance, SA, and we were duly re-incorporated as such on February 25, 1997. We are subject to Book II of the French Code du Commerce and to Act No. 67-236 of March 23, 1967 concerning "les societes commerciales et des groupements d'interet economique" (French company law). Except as mentioned above, we and our subsidiaries have not been a party to any material reclassifications, 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 Michel Landel, and our agent for service of process in the U.S. is Robert A. Stern, Sodexho, 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 2002, 2003 and 2004.

	Fiscal year ended August 31, 2004	2003	2002
	(millions of euro)		
Property, plant and equipment and intangibles.......	176	239	297
Acquisitions..	79	37	107
Total...	255	276	404

We estimate that our consolidated capital expenditures for fiscal 2005 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, 2001 are highlighted below.

In March 2004, the Group, through its subsidiary Sodexho 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 (euro)6 million, ((euro)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 (euro)82 million.

In May 2004, the Group arranged a revolving credit facility of (euro)360 million in order to meet its cash commitments including the repayment of the (euro)305 million bond issue in June 2004. As of August 31, 2004, (euro)100 million and $100 million were drawn (totaling (euro)183 million). This credit facility expires in April 2005, but the Group may extend its term for an additional year, to April 2006, at its option. The banks may extend the term to April 2007.

In May 2002, we divested our entire interest in Lockhart Catering Equipment Ltd for (euro)61 million in cash. Based in the United Kingdom, this subsidiary was primarily engaged in the distribution of catering equipment, a non-core activity for the Group.

In November 2001, we acquired 100% of the capital stock of Minesite Catering Pty Ltd in Australia for (euro)10 million in cash.

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.

Since 1996, we have made three bond issuances, two equity offerings and two syndicated bank borrowings to aid in financing our acquisition expenditures. In 1996, we issued 400,000 bonds for a total of (euro)305 million, each of which bore an annual interest rate of 6%. These bonds were redeemed in 2004. Each of these bonds carried a warrant entitling the bearer to purchase 16.66 of our shares on or before June 7, 2004 for (euro)411.61. In 2004, 291 warrants were exercised, and 4,848 shares were issued. In 1997, we raised (euro)306 million by issuing 835,770 new shares for cash. In March 1998, Sodexho, Inc. (formerly SMS) raised U.S. $1.3 billion

of which (euro)580 million was guaranteed by us. Outstanding balances on these facilities were refinanced in the third quarter of fiscal 2001 (see further discussion below). In 1999, we issued a total of (euro)300 million in bonds which bear an annual interest rate of 4.625% and mature in 2009. In July 2001, we raised additional capital of (euro)1.0 billion by issuing 22,498,729 new shares for cash.

In the fourth quarter of 2001, in connection with the acquisitions of Sodexho, Inc., Sogeres and Wood Dining Services and to refinance Sodexho, Inc.'s existing debt, we entered into a credit agreement for total amounts of (euro)1.9 billion and U.S. $1.1 billion, divided among four facilities. The first and second facilities, in the amount of (euro)1.9 billion, financed the acquisitions. On July 5, 2001, (euro)0.9 billion of these facilities were repaid out of the proceeds of our July 2001 share issuance. The balance was repaid with the proceeds of the debt securities issued in March 2002, as described below. The third and fourth facilities, in the amount of U.S. $1.1 billion, were used to refinance Sodexho, Inc.'s existing debt and are repayable in quarterly installments with a final maturity date of April 5, 2006. Our interest margin for these facilities is 0.55% over LIBOR or EURIBOR, as appropriate, adjusted over time to reflect fluctuations in our credit rating (these margins may range from 0.45% to 1.50%). The facilities are subject to customary terms, financial covenants and events of default. The Group has entered into various agreements to convert variable interest rates to fixed rates.

In addition, on March 6, 2002, we finalized the terms of an issuance of (euro)1 billion of debt securities in the European markets, which closed on March 25, 2002. We used the net proceeds from the sale of these debt securities, approximately (euro)1 billion, to refinance the credit facility referred to above. The debt is issued in 5.875% notes due March 25, 2009.

B. Business Overview

General

Our operations can be divided into two broad businesses: Food and Management Services and Service Vouchers and Cards. Food and Management Services is our most significant business and accounted for 98% of our revenues for the fiscal year ended August 31, 2004. Approximately 45% of our revenues in this business were generated from our North American subsidiaries. The Service Vouchers and Cards business accounted for 2% of our revenues in fiscal 2004.

Within the Food and 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, 2004, 2003 and 2002.

	2004	2003	2002(2
Revenues by Activity		(in millions of euro)	
Food and Management Services			
North America	5,031	5,427	6,039
Continental Europe	3,760	3,585	3,491
United Kingdom and Ireland	1,351	1,453	1,681
Rest of the World	1,103	974	1,119
Total	11,245	11,439	12,330
Service Vouchers and Cards			
Continental Europe	129	128	124
United Kingdom and Ireland	6	12	10
Rest of the World	114	108	145
Total Services Vouchers and Cards	249	248	279
Total revenues	11,494	11,687	12,609
EBITA by Activity(1)			
Food and Management Services			
North America	239	268	293

	2004	2003	2002(2
		(in millions of euro)	
Continental Europe	171	167	150
United Kingdom and Ireland	28	21	9
Rest of the World	37	18	31
Total	475	474	483
Service Vouchers and Cards	68	68	77
EBITA, excluding corporate expenses	543	542	560
Corporate expenses	(28)	(28)	(35)
Total	515	514	525

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(1) EBITA represents net income before interest expense, exceptional items, income taxes, income from equity method investees, goodwill amortization and minority interests and represents an internal measure used to assess performance.

(2) Certain amounts for the year ended August 31, 2002 differ from the corresponding amounts for the same periods reported in the Company's Document de Reference filed with the Commission des Operations en Bourse (now known as the Autorite des Marches Financiers). See note 1 to the Consolidated Financial Statements for further information.

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 improve the quality of daily life. In pursuing this vision, we have focused on the following key priorities:

Accelerate organic growth. Organic growth represents our preferred and most profitable growth alternative as the outsourced food and management services market in which we operate continues to expand. This expansion stems from the worldwide trend towards outsourcing of non-core functions, including food and management services, as enterprises increasingly make strategic decisions to focus on their core businesses and seek 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

- segmenting and sub-segmenting our client base,
- expanding our food services offering beyond traditional food service sales points into vending, trolley and take-out sales points, directors' tables and executive dining, branded concepts, merchandising and other programs,
- expanding our offering beyond food services to "multiservice" solutions such as building management and maintenance, business support services and ancillary services to individuals,
- continuing our expansion into the public sector,
- reinforcing our client relationships through client retention, and
- strengthening our large multinational account capabilities as we build 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.

Improve operational management. We are able to provide and continue to develop more cost-effective 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 our purchasing and delivery logistics.

By leveraging our size across many markets we also

- o 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,
- o leverage our experience and brand through cross-segment teamwork between our Food and Management Services and our Service Vouchers and Cards businesses,
- o are able to better coordinate labor scheduling practices and share training costs across markets, and
- o streamline the use of ingredients we use and coordinate menu planning across closely-situated sites.

Improve our human resource planning. We are strongly committed to the development and promotion of our staff and invest in our human capital. The human resources department has prepared plans and programs to detect, prepare, train and globalize tomorrow's executive 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.

Improve cash flow. 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.

Reinforce control. 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 undertaken, in order to ensure that the Group's internal controls are documented and effective. The CLEAR Project is sponsored by the Chairman and 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 ensure the propriety of the methodology adopted by the project teams as well as compliance with the auditor's reporting requirements. Further information on the Group's internal controls can be found in the Chairman's Report included in the Document de Reference filed with the AMF on November 25, 2004, which is available on the Group's website, www.Sodexho.com. In addition to the CLEAR Project, Group management continues to reinforce our internal controls, including increasing the intensity and frequency of internal audits and by reporting on controls and risk management to the Audit Committee of our Board of Directors. We recently reinforced our central audit function by hiring a Group Internal Audit Director who reports to our Chairman and Chief Executive Officer. 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.

In October 2002, a disclosure committee was formed to evaluate our disclosure controls and to review annual and semi-annual reports, financial press releases, our Annual Report on Form 20-F, and other information presented to shareholders. As a consequence, existing disclosure procedures and controls are evaluated and updated regularly as appropriate.

Encourage transparency and communication. We are developing a 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 menu planning and 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.

Food and Management Services

Overview

We are a global food and management services contractor. In the fiscal year ended August 31, 2004, our revenues in this activity were approximately (euro)11.2 billion. In fiscal 2004, we operated through approximately 24,900 individual outlets in more than 76 countries. None of our clients is responsible for 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 (euro)5.1 billion of our Food and Management Services business revenues in fiscal 2004, delivered at over 13,500 sites, representing 45% of our total Food and Management Services business revenues. Traditionally, this market has been comprised of corporate customers, whom we provide with food services as well as vending, reception, mailroom, cleaning and facilities maintenance. Over the last 35 years, we have expanded the range and depth of our services and clients to include the following:

- providing food and 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 service 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 and the 2003 Rugby World Cup in Sydney, Australia;

- providing a full range of executive dining services and the management of conference centers and private clubs for our corporate clients; and

- providing food service and custodial services, maintenance, transportation, professional training, and rehabilitation services to correctional facilities in many locations outside of North America.

In our River and Harbor Cruises activity, we have selectively built an international presence as a premier boat operator in France, the United States and the United Kingdom, rendering us the largest operator of river and harbor cruises in the world, based on annual revenues. This activity is more capital intensive than the remainder of our businesses.

Healthcare. For fiscal 2004, revenues in the Healthcare market totaled (euro)2.7 billion at 5,100 sites, representing 24% of our total Food and Management Services business revenues. In this market, we provide catering services, vending, 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, but restructuring in the healthcare industry in recent years has resulted in fewer hospitals as well as in shorter patient stays, leading the short-stay market to expand by only two to three percent each year. By contrast, shifting trends in caring for the elderly have led the long-stay market to expand by approximately 4% 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 2004, revenues in the Education market totaled (euro)2.8 billion at over 4,900 sites, representing 25% of our total Food and Management Services business revenues. This portion of our business provides food and 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 2004, we operated this activity on about 1,300 sites around the world and generated revenues of (euro)0.6 billion. 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 the construction market. We estimate the worldwide remote services market, which spans five continents, to be approximately (euro)10 billion per year, and our only global competitor currently is Compass. We believe that new opportunities will develop for service providers as prices for raw materials stabilize and the depletion of natural reserves in some countries leads to prospecting in new onshore and offshore areas.

Services Mix

Most of our revenues are generated from food services, but our revenues in the Food and Management Services business increasingly arise from providing ancillary support services to our clients, which, together with food service, we refer to as "multiservices." The multiservices market is underpenetrated; we estimate the not-yet-outsourced portion to be (euro)380 billion annually worldwide. We expect that the proportion of non-food services we provide will increase relative to our food services in the future.

Food Services. The food services industry is broadly divided among the areas of contract catering, concessions, vending and 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 customer profiling system, Conviv'styles(R), now known as Personix.

Multiservices. 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 is key to our expansion. 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 management services on a quality, efficient, cost-effective basis. The ancillary services we provide are complementary to our food services and fall into three main categories.

- People services, which are tailored to end-users and 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.

- Business support services, which add value to our clients through the management of peripheral activities. Reception, mailroom, switchboard, groundskeeping, housekeeping, custodial 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 management and maintenance services, which comprise the technical maintenance operations required to deliver electricity, water, other utilities, heating and ventilation to the various areas on a particular site. In Europe, for example, our subsidiary Altys provides building services to large client accounts such as Cisco in France, Belgium and Germany.

The Market for Outsourced Food and Management Services

We estimate that approximately one-half of food management services worldwide currently remain self-operated, and an even greater proportion of other ancillary services is not outsourced. We believe that over the past ten years, the portion of outsourced Food and 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:

- 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.

Outsourcing recently has grown particularly 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. 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 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 quarter of this 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. A multiservice 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, with about half of private sector institutions and about one-third 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 steadily. 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. The market for multi-service national providers (food and facilities) is growing as large corporations are moving toward outsourcing all of their non-core services on a multisite and multiservice basis. We estimate that only about half of such services are outsourced on average, but substantial differences exist from one country to another.

We estimate the outsourcing potential for multiservices as a whole to be two and one-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 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 measurements by third parties, such as patient satisfaction.

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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 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 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, and hence create value for our clients, and our strategy is to avoid the commoditization of our service offering. Accordingly, we may lose some business to competitors on the basis of price.

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 focused on their domestic or continental markets, with less than 45% of their revenues coming from overseas operations.

The following table shows the ranking of the three leading contract caterers, in terms of revenues, in different market segments, as of August 2004.

	Business & Industry	Education	Healthcare
No. 1..................	Compass	Sodexho	Sodexho
No. 2..................	Sodexho	Aramark	Compass
No. 3..................	Aramark	Compass	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 the Netherlands, where we, together with two other companies have over 70% 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 consolidation and multinational expansion. Drivers for consolidation 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.

Service Vouchers and Cards

In our Service Vouchers and Cards business, we have operations in 26 countries, mainly in Europe and Latin America, and our vouchers are used by nearly 12.9 million people. As of the end of fiscal 2004, this activity issued over 1.5 billion vouchers on behalf of more than 293,000 clients and generated revenues of (euro)249 million. Our vouchers were accepted at over 825,000 locations and the total nominal value, which is not included in our revenues, of vouchers issued in fiscal 2004 was (euro)4.8 billion. This business generates negative working capital and requires only a modest level of capital investment.

Our Service Vouchers and Cards business, which focused originally on managing employee fringe benefits for companies, has expanded into controlling and managing welfare benefits allocated by federal authorities and local communities. The business currently comprises three product families: daily life, incentive and assistance, which are used to pay for a wide range of social and fringe benefits, including healthcare and household bills, and to purchase everything from gas and groceries to clothing and medications. 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 to our customers until the time of their redemption, when we must repay our affiliates, generally a one-to-three-month period. Service vouchers 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 nearly one 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 current captured market for service vouchers and cards is more than (euro)15 billion worldwide. We also estimate that the potential additional market for existing products in countries where we are already present totals more than (euro)30 billion. Between 2003 and 2004, organic growth was 7%. 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 current objectives in this activity are to (i) consolidate our number two position by offering the best perceived quality services in the market; (ii) enhance our capabilities in new technologies, with a focus on smart card technology; and (iii) innovate and develop new products and services to capture a greater share of the market.

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 food prices and availability, 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 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 service 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 food services.

We have installed various internal controls and procedures designed to maintain a high level of compliance with these regulations, but we cannot assure you 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, and changes in the interpretation of applicable regulations. 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 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 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 760 people are involved in sales, 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, 2004, we had over 250 subsidiaries in 76 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 4 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 Management Services business. The vehicles comprise automobiles and delivery trucks used in the Food and 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, 2004 of (euro)198 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 (euro)110 million as of August 31, 2004. 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 1 to our Consolidated Financial Statements.

ITEM 5. Operating and Financial Review and Prospects

The selected consolidated financial data as of and for the years ended August 31, 2002, 2003 and 2004 have been derived from and should be read in conjunction with the consolidated financial statements of Sodexho Alliance included elsewhere in this Annual Report on Form 20-F. The selected consolidated financial data as of and for the years ended August 31, 2000 and 2001 have been derived from consolidated financial statements that are not included in this Annual Report on Form 20-F. Our consolidated financial statements for each of the years ended August 31, 2002, 2003 and 2004 were audited by PricewaterhouseCoopers Audit.

Except as described in note 1 to the consolidated financial statements, our consolidated financial statements have been prepared in accordance with French generally accepted accounting principles ("GAAP"), which differ in certain significant respects from U.S. GAAP. Note 5 to our consolidated financial statements describes the principal differences between French GAAP and U.S. GAAP, as they relate to us, and reconciles our net income to U.S. GAAP for each of the years ended August 31, 2002, 2003 and 2004, and our shareholders' equity to U.S. GAAP as of August 31, 2003 and 2004.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in compliance with relevant French law and in conformity with accounting principles generally accepted in the United States of America, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of

contingent assets and liabilities, including judgments related to the selection of appropriate accounting policies as well as the appropriate application of those policies. Actual results could differ from those 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 and estimates which we believe are the most significant to our business operations and to an understanding of our financial statements and related footnotes.

Revenue Recognition

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

In the Food and Management Services business revenue is recognized in the period in which services are provided pursuant to the terms of the contractual relationships with clients.

Revenues for service voucher activities include commissions received from customers, which are recorded upon issuance of the vouchers to the customers; commissions received from affiliates, which are recorded upon redemption of the vouchers by the affiliates; and interest income realized on the nominal value of the vouchers during the period from their issuance through redemption (generally, one to three months).

Business Combinations and Impairment of Intangible Assets and Goodwill

Accounting policies for business combinations and impairment of intangible assets and goodwill differ between French and U.S. GAAP.

Under French GAAP, all of our business combinations are accounted for as purchases. The cost of an acquired company is assigned to the tangible and intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. Any excess of purchase price over the fair value of the tangible and intangible assets assumed, including market share, is allocated to goodwill, which is amortized over its estimated useful life. Due to the long-term nature of the Group's business, goodwill is generally amortized over thirty years (on a pro rata basis in the year of acquisition). This valuation of goodwill on a historical basis is also supported by a calculation of the current value of these assets as of August 31, 2004, as described in further detail below.

In the allocation of purchase price with respect to the acquisitions of Sodexho, Inc. (formerly, Sodexho Marriott Services, Inc.), Wood Dining Services, Sogeres, Sodexho Services Group Ltd (formerly, Gardner Merchant), Sodexho Scandinavia (formerly, Partena), and Universal Services, a portion of the difference between the cost of the shares acquired and the Group's equity in the underlying net assets of the entities acquired has been recognized as market share. This intangible asset represents the value attributed to the significant market shares held by the Group in the geographic regions specific to the acquisitions (the United Kingdom and Ireland, the United States, the Netherlands, France, Australia and Sweden).

Market share is principally determined based on an average of multiples of revenues and EBITA achieved by the acquired companies in the applicable countries as compared to unrelated recent transactions in the marketplace, and is reviewed annually for impairment. Market shares are not amortized in the consolidated financial statements, and no deferred taxes are recorded on market shares. Initial allocations to market share require management to exercise judgment in the choice of unrelated transactions in the marketplace. If there is a significant diminution in the market share value for more than two consecutive years, as recomputed based on actual results of the applicable subsidiary as compared to the original calculation, an impairment loss is recorded.

As of August 31, 2004, the Group also performed the impairment tests on market shares and goodwill required by the "Reglement du CRC no. 2002-10," issued on December 12, 2003, which defines the recoverable value of an asset as the higher of its market value or "value in use." Market value is calculated based on criteria determined at the date of the acquisition corresponding mainly to revenues and EBITA and using multiples of recent transactions. Value in use is determined using the value of future cash flows after taxes based on three year operating plans prepared by management. These plans are extrapolated to a longer period by applying a growth rate specific to the sector of activity and geographical region concerned. Cash flows are discounted using an average cost of capital. The recoverable value determined is then compared to the sum of intangible assets, other fixed assets and working capital. These impairment tests did not result in an impairment charge for the year ended August 31, 2004.

Under U.S. GAAP, all of our business combinations are accounted for as purchases. In accordance with SFAS No. 141, "Business Combinations" (APB 16, "Business Combinations," for transactions consummated prior to June 30, 2001), 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, assembled workforce (for transactions consummated prior to June 30, 2001 only), and software intangible assets have been identified with respect to our acquisitions. As such, for U.S. GAAP purposes, a portion of the amount allocated to market share and goodwill under French GAAP is 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, and the amount assigned to goodwill is increased by an amount equal to the deferred tax liability recorded, if any.

For U.S. GAAP purposes, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which required us to reclassify (into goodwill) the carrying value of assembled workforce intangibles and those customer relationship intangibles which did not meet the criteria of SFAS 141 for recognition apart from goodwill. None of the identifiable intangible assets recognized apart from goodwill are considered to have indefinite lives. In accordance with SFAS 142, we do not amortize goodwill. All other intangible assets, including customer contracts, 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, if any) 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.

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.

Provisions for contingencies and losses

Under French GAAP, provisions for contingencies and losses may be recognized when there is a possibility of loss and prudence is an important, although not the only, consideration. In general, provisions for risks and charges represents liabilities which have not been settled, or for which the settlement amount or other pertinent information is unknown, as of the balance sheet date. Such amounts are reflected as charges in the income statement in the period in which they are provisioned.

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 no single amount within the range is considered to be a better estimate than any other amount within the range, that amount is accrued. However, 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 French 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.

Actuarially-Determined Liabilities

Included in other liabilities are liabilities established using actuarial methods, notably for pensions and postretirement benefits in some of our subsidiaries located in Europe. In French GAAP, there are no specific requirements pertaining to accounting for pension and post-retirement benefits. For subsidiaries located in France, the projected unit credit valuation method is used to evaluate the pension and post-retirement liabilities under French GAAP. In the United Kingdom, our pension plans are administered by a third-party insurance company. Under French GAAP, premiums paid to the insurance company are recorded as an expense in the period in which they are made. 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.

Also included in other liabilities are liabilities for workers' compensation, principally in the United States. These liabilities are estimated using actuarial methods for both French and U.S. GAAP based on assumptions made by management with respect to the expected development of known and incurred but not reported claims.

Derivative Financial Instruments

Under French GAAP, our derivative financial instruments, which consist primarily of interest rate and cross-currency swap agreements on debt instruments, are considered to hedge the underlying debt. Any interest rate differential is recognized as an adjustment to interest expense over the term of the related underlying debt. For swaps negotiated on inter-company debt, the difference between the amount of the debt at the period end rates and the swapped rates is recorded as debt. Where the hedge is of a net investment in a foreign subsidiary, the resulting foreign currency translation difference is recorded in the currency translation adjustment account in shareholders equity.

Under U.S. GAAP, SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, requires all derivative instruments to be recorded on the balance sheet at their fair value. Changes in fair value are recorded currently in earnings unless the item is designated, qualifies, and is effective as a hedge. Fair value is defined as the amount that would be paid or received to terminate the derivative instrument at the balance sheet date. Changes in the fair value of derivatives designated as part of a hedge transaction are recorded each period in current earnings or other comprehensive income, depending on the type of hedge transaction. For cash flow hedge transactions in which we are hedging the variability of cash flows related to a variable rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument is reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income are reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in current period earnings. For certain derivative financial instruments, as permitted by SFAS 133 and as described below, we have elected not to prepare the documentation required by SFAS 133 in order to meet hedge accounting criteria. Had we met and appropriately documented the hedge accounting criteria required by the standard, reported earnings under U.S. GAAP might have been different in each of the periods presented.

Under U.S. GAAP, we have accounted for all of our derivative financial instruments (other than those of Sodexho, Inc., as described below), which consist primarily of interest rate and cross-currency swap agreements, both prior and subsequent to the adoption of SFAS No. 133 at fair value with changes in fair value of instruments recognized currently in earnings. The aggregate adjustment reflected in the reconciliation of consolidated shareholders' equity and consolidated net income (loss) to U.S. GAAP as of and for the years ended August 31, 2004, 2003 and 2002 for "Derivative financial instruments" is attributable entirely to derivative financial instruments accounted for at fair value. The fair value of our derivative financial instruments is generally obtained from third party financial institutions.

Under U.S. GAAP, Sodexho, Inc.'s interest rate agreements have been designated as cash flow hedges in accordance with SFAS No. 133. As of August 31, 2004 and 2003, and for each of the three fiscal years in the period ended August 31, 2004, these cash flow hedges were determined to be effective hedges and, accordingly, changes in their fair value are reflected in the statement of comprehensive income (recorded directly in shareholders' equity).

Currency Translation

For subsidiaries located in foreign countries, assets and liabilities are translated using the end of period exchange rate. Income statement and cash flow statement line items are translated using the average exchange rate for the year, calculated using monthly averages. Exchange rates used are obtained from the Bourse de Paris and other international financial markets. 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 accounts as translated at beginning and end of period rates is recorded in shareholders' equity, except with respect to countries considered highly inflationary, where this difference is included in net financial expense. Foreign exchange gains and losses resulting from intragroup transactions in foreign currencies during the year are recorded in the income statement.

Recent Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation, FIN No. 46, Consolidation of Variable Interest Entities, which is an interpretation of Accounting Research Bulletin, ARB No. 51 Consolidation of Financial Statements. FIN No. 46 provides additional guidance regarding how to identify variable interest entities and how an enterprise assesses its interest in the variable interest entity to determine whether an entity is required to be consolidated. The interpretation establishes that an enterprise consolidate a variable interest entity if the enterprise is the primary beneficiary of the variable interest entity. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership, contractual, or other pecuniary interests in an entity. This interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. For interests in variable interest entities existing as of January 31, 2003, the guidance of FIN No. 46 applied in the first fiscal year or interim period beginning after June 15, 2003. The adoption of FIN No. 46 did not have a significant impact on the Group's consolidated results of operations, financial position, or cash flows.

In June 2002, the FASB issued Statement of Financial Accounting Standard No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) (EITF 94-3). The principal difference between SFAS 146 and EITF 94-3 relates to the requirements of SFAS 146 related to the recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for exit costs was recognized at the date of an entity's commitment to an exit plan. In accordance with SFAS 146, an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. In addition, SFAS 146 also establishes that fair value is the objective for initial measurement of the liability. SFAS 146 was effective for exit or disposal activities initiated after December 31, 2002. The Company has applied the provisions of SFAS 146 to all costs associated with exit or disposal activities initiated after December 31, 2002.

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 affects the issuer's accounting for three types of freestanding financial instruments: and equity. It requires that an issuer classify a financial instrument that is (1) mandatorily redeemable shares, which embodies an unconditional obligation requiring the issuer to redeem the instrument in exchange for cash or other assets at a specified or determinable date(s) or upon an event that is certain to occur; (2) instruments that require or may require the issuer to repurchase some of its shares in exchange for cash or other assets, including written put options and forward purchase contracts; and (3) obligations that must or may be settled by issuing a variable number of equity shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index or varies inversely with the value of the issuers' shares. SFAS 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. For instruments entered into prior to May 31, 2003, the provisions of SFAS 150 are effective at the beginning of the first interim period beginning after June 15, 2003 (for the Group, as of September 1, 2003). The adoption of SFAS 150 did not have a material impact on the results of operations, financial position or cash flows of the Group.

In November 2000, the EITF reached a consensus on EITF 00-21, Revenue Arrangements with Multiple Deliverables. EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003 (for the Group, September 1, 2003). The adoption of EITF 00-21 did not have a material impact on the results of operations, financial position or cash flows of the Group.

International Financial Reporting Standards

Like all European listed companies, we will be required to apply International Financial Reporting Standards (IFRS). This application will be effective for us in the preparation of our consolidated financial statements as of August 31, 2006 and for the fiscal year then ended. Comparative information for the prior fiscal year will also be presented.

During fiscal 2003, we initiated a comprehensive IFRS conversion project for our consolidated financial statements. At that time we identified the main differences between our current accounting policies and IFRS. A summary of this analysis was presented to the Audit Committee.

During fiscal 2004, we established a timetable for the project and updated the analysis performed in fiscal 2004 to reflect new IFRS standards and modifications to existing standards. We also held training sessions in order to provide an overview of the impact of IFRS standards to financial managers in the principal Group subsidiaries.

We are currently reviewing the U.S. GAAP reconciliation in order to identify, anticipate and use accounting options available under existing French accounting standards to achieve convergence with IFRS.

Based upon the work performed to date, we have identified the following differences:

Financial statement presentation

Income statement

As permitted by IAS 1, the Group will present its income statement by function, separately identifying direct and indirect (in particular, commercial and administrative) costs within cost of sales. As required by IAS 1, the captions "exceptional" and "extraordinary" results will no longer be used, which will result in the reclassification of certain items currently reported as exceptional to EBITA or to net financial expense.

Balance sheet

Our balance sheet will reflect the classification between current and non-current elements which differs slightly from the current presentation.

Cash flow statement

Our current cash flow statement does not differ significantly from IAS 7.

Business combinations and intangible assets

The initial application of IFRS standards will not result in any changes to prior years' accounting for business combinations and goodwill. As permitted by IFRS 1, the Group will not restate the business combinations that occurred prior to September 1, 2004.

However, the amounts recorded as market share in connection with these business combinations will be reclassified to goodwill, because IFRS does not permit their current presentation on the balance sheet.

In accordance with IAS 36, goodwill will no longer be amortized, but will be subjected to annual impairment tests. IAS 36 retains the concept of Generating Units of Treasury (UGT). These tests may differ from the impairment tests currently performed.

Employee benefits

Employee benefits are being evaluated in accordance with IAS 19. As permitted by the standard, the Group intends to record the accumulated actuarial gains/losses as of September 1, 2004 in the opening shareholders' equity.

Share-based payments

IFRS 2, issued in February 2004, will modify the Group's accounting for stock options granted to employees. The standard will affect the accounting for all stock option grants made subsequent to November 7, 2002 for which the exercise rights have not been earned prior to January 2, 2005. IFRS 2 requires that the fair value of the options as of the grant date be expensed over the vesting period. The January 2003, June 2003 and January 2004 plans will be affected by this adjustment.

In addition, the IFRS standards require that treasury shares be reflected as a reduction to consolidated shareholders' equity. As a result, the treasury stock held by the Group in connection with its stock option plans, which is currently classified as marketable securities, will be recorded as a reduction to shareholders' equity.

Capital leases

Fixed assets that have been financed under lease agreements meeting the criteria for treatment as capital leases are already recorded in accordance with IAS 17. However, lease agreements pertaining to certain customer contracts are still being reviewed for compliance with the standard.

Derivative financial instruments

Derivative financial instruments are recorded in the balance sheet at their fair value, and variations between balance sheet dates are recorded in the income statement, with the exception of certain derivatives meeting the requirements for hedge accounting, for which the variations are recorded in shareholders' equity.

Client investments

The IFRS accounting treatment for client investments, which are similar to concession contracts, has not yet been finalized by the International Financial Reporting Interpretations Committee (IFRIC). These client investments are currently classified in deferred charges in our consolidated financial statements.

Private Finance Initiatives

The IFRS accounting treatment in our consolidated financial statements for certain of our contracts in the framework of private finance initiatives in the United Kingdom has not yet been finalized by the appropriate professional bodies.

The progress of the IFRS project is regularly communicated to the Audit Committee and to our external auditors.

Timely completion of this project should allow the Group to be able to quantify and communicate the impact of the conversion to IFRS prior to August 31, 2006.

The U.S. Securities and Exchange Commission (SEC) recently proposed amending Form 20-F to allow first time application of IFRS to file two years rather than three of income statements and cash flows. A final rule, which may differ from the proposed rule, has not yet been issued and could require a third year of comparative financial statements.

BALANCE SHEET AND INCOME STATEMENT DATA

Our consolidated financial statements and the selected financial data presented below are reported in euro.