

Chawla Sona
Form 4
September 27, 2018

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Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Chawla Sona

(Last) (First) (Middle)

N56 W17000 RIDGEWOOD DRIVE

(Street)

MENOMONEE FALLS, WI 53051

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
KOHLS Corp [KSS]

3. Date of Earliest Transaction (Month/Day/Year)
09/25/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)
President

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
			Code	V Amount (A) or (D) Price			
Common Stock	09/25/2018		F	15,689 (1) D \$ 74.65	224,159	D	
Common Stock	09/26/2018		S	10,000 (2) D \$ 74.69 (3) (4)	214,159 (5)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

* Independent director.

Pierre Bellon. Mr. Bellon founded Sodexho Alliance in 1966 and served as its Chairman and Chief Executive Officer until August 31, 2005. Currently, he is Chairman of the Board of Directors. Since 1988, he has served as Chairman and Chief Executive Officer of Bellon SA, the family holding company that controls us, and as Chairman of its Executive Board (Board of Directors) from 1996 until February 2002. At that time, he was appointed Chairman of the Bellon SA Supervisory Board. Mr. Bellon has also served as National President of the Center for Young Company Managers (formerly the Center for Young Employers) from 1968 to 1970 and President of the National Federation of Hotel and Restaurant Chains from 1972 to 1975. He was a member of the Economic and Social Council from 1969 to 1979 and has been a member of the Executive Council of the National Council of French Employers (CNPF (now known as the Medef)) since 1976 and from 1980 until 2005, its Vice-President. He has also served as President of the Management Improvement Association, which he founded in 1987, and as a member of the Board of the National Association of Joint-Stock Companies. Mr. Bellon is currently a director of PPR. Mr. Bellon and his children, Astrid Bellon, Sophie Clamens, Nathalie Szabo and François-Xavier Bellon and their children, hold 68.5% of the shares in Bellon SA, which holds a 36.83% economic interest in Sodexho Alliance as of December 31, 2006.

Robert Baconnier. Mr. Baconnier began his career in 1967 as a civil servant at the French Ministry of Economy and Finance, and was assigned to the Internal Revenue Service (*Direction Générale des Impôts*). From 1977 to 1979, he was the Technical Advisor to the office of the Minister of Economy and Finance, then Deputy Director in the office of the Minister for the Budget. From 1979 to 1983, he was Deputy Director in charge of the International Division of the Tax Legislation Department; in 1983 he was appointed head of the Litigation Department of the Internal Revenue Service. In 1986, he became the head of the Internal Revenue Service. From 1990 to 1991, he was the Paymaster General at the French Treasury, and then in 1991 he joined the law firm Bureau Francis Lefebvre, where he served as Chairman of the Management Board until 2004. Currently, he is the Chairman and CEO of ANSA, the French National Association of Joint Stock Companies. In addition, he serves as an advisor to the French Foreign Trade Commission.

Remi Baudin. Before helping Pierre Bellon to create Sodexho Alliance, Mr. Baudin took part in a number of foreign projects for the management consultant company SEMA from 1957 to 1965. He reorganized and managed its ship supply business (1965-1969), then created a joint venture with Sonatrach in the Remote Sites business and headed the two companies' joint subsidiary in Algeria (1969-1970). He successively managed the food and management services France division and started up operations in Belgium (1971-1976); the France and Africa division, overseeing start-ups in Cameroon, Nigeria, Ivory Coast, Angola, Benin, Guinea, Algeria and Libya (1977-1982); and the food and management services France and Europe division (1982-1992). Mr. Baudin is also President of FERCO, the European food services confederation, which he founded in 1988 and is the President of the Supervisory Board of Octofinances SA. He was Chairman of the Bellon SA Supervisory Board from 1996 until February 2002 and currently serves as its Vice Chairman.

Patricia Bellinger. Ms. Bellinger began her career in Madrid, Spain in 1986 by founding a casting agency, and she continued working in media and communications in Spain until 1995. In 1995, she returned to the United States and joined Bristol Myers Squibb, the pharmaceutical company, where she was successively Associate Director for Communications, Associate Director for Public Affairs, and in 1998, the Corporate Director of Culture and Human Resources Diversity. In 2002, she joined British Petroleum in London to become the head of diversity and inclusion and in 2006 she became the Director of the BP Leadership Academy. Recently Ms. Bellinger became the head of the newly created Leadership Education function. Ms. Bellinger currently serves as a member of the Executive Leadership Council in Washington, D.C.; she is a member of the Advisory Board of the Leadership Center at Morehouse College in Atlanta, Ga. and she is also a member of the Breakthrough Breast Cancer Generations Appeal Board. Ms. Bellinger is an American citizen.

Astrid Bellon. Astrid Bellon is a member of the Executive Board of Bellon SA, is President of Sofrane SAS, and is a Manager and Permanent Representative of Sofrane for S.C.A Sobelnat. Since 1999, Ms. Bellon has worked in the field of audio-visual production, and in 2001, she created the company "Les Films d'à Côté," in which she is also a shareholder. Astrid Bellon is the daughter of Pierre Bellon.

Bernard Bellon. Mr. Bellon was Director of Compagnie Hôtelière du Midi (a member of the Compagnie de Navigation Mixte Group) from 1962 to 1970 and then held various managerial positions in banking at CIC-Banque de Union Européenne Group from 1970 to 1988. In 1988, he founded Finadvance SA, a venture capital company, and has since served as its Chairman. He also serves as a member of the Bellon SA Supervisory Board and a director of Copelia. Bernard Bellon is the brother of Pierre Bellon.

François-Xavier Bellon. François-Xavier Bellon began his career in the temporary employment business as an agency manager for Adia France (1990-1991) and then for Ecco in Barcelona, Spain, where he was promoted to Sales and Marketing Director and Regional Director for Catalonia (1993-1995). He joined the Group in September 1995, initially as segment manager and later as development manager for the Healthcare segment in France. In 1999, he became the Managing Director of Sodexho Mexico. In January 2004, he was appointed Chief Executive of Sodexho in the U.K., before resigning a few months later. He is a member of the Executive Board of Bellon SA. Since 2005, he has been the Sales and Marketing Director of the Temporary Work division of the Adecco Group. François-Xavier Bellon is the son of Pierre Bellon.

Sophie Clamens. Ms. Clamens began her career with Crédit Lyonnais in New York as a mergers and acquisitions advisor for the bank's French clientele. Ms. Clamens joined the Group's finance department in 1994, initially as a senior analyst. In 2002, she was appointed Project Manager of Strategic Planning for the Group in charge of development and implementation of key performance indicators. In addition, Ms. Clamens has been responsible for the identification and dissemination of best practices, as well as the global rollout of the Group's client retention strategy. Since September 2005 she has been Group Vice President Client Retention. Ms. Clamens became Chairman of the Executive Board of Bellon SA in 2002, and, currently serves as a director of Holding Altys SA. Ms. Clamens is the daughter of Pierre Bellon.

Paul Jeanbart. Mr. Jeanbart is a co-founder, partner and, since 1967, the Chief Executive Officer of the Rolaco Group. He also serves as Chairman of Oryx Merchant Bank Limited, Chairman of the Board of Directors of Hôtels Intercontinental Genève, Executive Director of Rolaco Holding SA and a Director of the Rolaco Group and its affiliates and is a member of the Semiramis Hotel Co. Board of Directors and the Club Méditerranée SA Supervisory Board. Mr. Jeanbart is a citizen of Canada.

Charles Milhaud. Mr. Milhaud joined the Caisse d'Épargne in 1964. In 1983, he became Directeur General of the Caisse d'Épargne des Bouches du Rhône et de la Corse as well as a Member of the Supervisory Board of the Centre National des Caisses d'Épargne (CENCEP). In 1995, he was named Vice President of the Board of Directors of the Caisse Centrale des Caisses d'Épargne. When the two entities merged in 1999 to form the Caisse Nationale des Caisses d'Épargne (CNCE), Mr. Milhaud was named President of the Directoire, a position he currently holds. Mr. Milhaud is also Chairman of the Supervisory Boards of Crédit Foncier de France, Ixis, Issoria and Financiere Océor, Member of the Supervisory Boards of CDC Enterprise, Ixis Asset Management, Ixis Asset Management Group, Ixis Private Capital Management and CNP Assurances SA. He is a member of the Executive Committee, Treasurer and Vice Chairman of the Federation Bancaire Française. He is the Chairman of Groupement Européen des Caisses d'Épargne and the University of Groupe Caisse d'Épargne.

François Périot. After serving as Chairman and Chief Executive Officer of Thibaud Gibbs et Compagnie from 1968 to 1970, Mr. Périot successively held the positions of Chairman and Chief Executive Officer Unilever Spain and Chairman and Chief Executive Officer Unilever France (1971-1986). From 1986 to 1998, he was Chairman of Compagnie du Plâtre, and from 1988 to 1998 he served as Vice Chairman and later Chairman of UNICE, the European union of employer and industry confederations. Mr. Périot has also served as a president of the Enterprise Institute (1983-1986), a president of the National Council of French Employers (1986-1994), a member of the Executive Committee of the International Chamber of Commerce (1987-1989) and a member of the Economic and Social Council (1989-1999). He has also been President of the Franco-Dutch Chamber of Commerce, President of MEDEF International (1997-2005), President of the International Employers Organisation since June 2001 and President of the International Organization of Employers from 2001 to 2006. He currently serves as Honorary President of MEDEF and MEDEF International since 2005. He currently is a member of the Board of Directors of Unilever France Holdings and OENEO.

Nathalie Szabo. Ms. Szabo began her career in 1987 in the restaurant industry. She served as an account manager for Scott Traiteur from 1989 and later became sales director of Pavillon Royal. She joined the Group in March 1996 as sales director of Sodexho Prestige in France. She became sector manager in 1999 and subsequently became the Managing Director of Sodexho Prestige in 2003 and the Managing Director of L'Affiche in 2006. Ms. Szabo is a member of the Executive Board of Bellon SA and a member of the Supervisory Board of the Société du Lido (SEGSIMI). Ms. Szabo is the daughter of Pierre Bellon.

Peter Thompson. Mr. Thompson began his career in marketing in 1970, and in 1974 he became a Product Manager for General Foods Corp. He then joined GrandMet plc in 1984, where he held management positions in several subsidiaries, including Green Giant, Haagen-Dazs and Pillsbury. In 1992, he became Chairman and CEO of GrandMet Foods Europe, based in Paris. Mr. Thompson then joined PepsiCo Group in 1994 where he successively held the positions of: Chairman of Walkers Crisps in the U.K.; CEO Europe, Middle East, Africa of Frito-Lay International, and finally CEO of Pepsi-Cola International (1996-2004). Currently, he is a private investor and a Director of Syngenta AG. Mr. Thompson is an American citizen.

H.J. Mark Tompkins. Mr. Tompkins began his career in investment banking in 1964 with Samuel Montagu & Company (now HSBC). From 1965 to 1971, he was a management consultant with Booz Allen & Hamilton working on assignments in the U.K., continental Europe and the U.S. He joined the Slater Walker Securities group in 1972 and was named Chairman and Chief Executive Officer of Compagnie Financière Haussmann, a publicly traded company in France. From 1975 through 1987, he became active in property development, investment and management in both residential and commercial sectors. In 1987 and subsequent years, his focus moved to private equity and capital development in publicly traded entities, notably in the healthcare, pharmaceutical, retail and distribution, leisure, tourism and manufacturing sectors. He has significant experience in mergers and acquisitions, start-ups, initial public offerings, and private and public debt offerings. He currently serves as director of Allied Healthcare International, Inc., Healthcare Enterprise Group Plc, Samara Private Game Reserve (Pty) Ltd and Kingkaroo (Pty) Ltd. Mr. Tompkins is a British subject.

Executive Officers

The table below sets forth, as of December 31, 2006, the names and dates of birth of our executive officers.

Name	Date of Birth	Position
Elisabeth Carpentier	5/08/1954	Group Executive Vice President, Human Resources
Pierre Henry	1/22/1952	Group Chief Operating Officer Chief Executive Officer, Service Vouchers and Cards
Siân Herbert-Jones	9/13/1960	Group Chief Financial Officer
Vincent Hillenmeyer	7/16/1966	Group Executive Vice President, Strategic Planning
Philip Jansen	1/28/1967	Group Chief Operating Officer Chief Executive, United Kingdom and Ireland, Food and Facilities Management Services

Nicolas Japy

5/30/1956

Group Chief Operating Officer

Chief Executive Officer, Universal
Sodexo Remote Sites, Chief
Executive Officer, Asia/Australia,
Food and Facilities Management
Services

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Name	Date of Birth	Position
Michel Landel	11/07/1951	Chief Executive Officer, Sodexho Alliance President, Executive Committee President, Sodexho STOP Hunger Association
Richard Macedonia	08/21/1943	Group Chief Operating Officer Chief Executive Officer, North America, Food and Facilities Management Services
Jacques Petry	10/16/1954	Group Chief Operating Officer Chief Executive Officer, Continental Europe and South America, Food and Facilities Management Services
Clodine Pincemin	7/20/1952	Group Executive Vice President, Communications and Sustainable Development
Damien Verdier	02/09/1957	Group Executive Vice President, Marketing

Elisabeth Carpentier. Ms. Carpentier joined us in 1981 as Director of Hiring and Placement. From 1994 to 1998, she served as Human Resources Director for our Food and Facilities Management Services subsidiary in France. In January 1998, she was appointed Group Chief Human Resources Officer. Ms. Carpentier has both a law diploma and a post-graduate degree in human resources management.

Pierre Henry. After acquiring sales experience in the Belgian subsidiary of a U.S. company, Mr. Henry joined Sodexho in 1980 as Regional Director of Belgium's Chèque Repas. He then served successively as Sales Director and Managing Director of Chèque Repas Belgium. The scope of his responsibility has gradually extended to include other European countries, and in 2001, he was appointed Managing Director, Service Vouchers and Cards of a region which included Western Europe, Morocco, Tunisia, Turkey, China and the Philippines. He was promoted to the position of Chief Operating Officer and then Chief Executive Officer of the Service Vouchers and Cards activity in February 2004 and September 2005, respectively. Since September 2005, he is also one of the Group's Chief Operating Officers. He holds a degree in psychology which he obtained from the Catholic University of Louvain, Belgium.

Siân Herbert-Jones. Ms. Herbert-Jones began her career in Corporate Finance with Price Waterhouse in London and Paris from 1982 to 1995, where she served, notably, as Director in the Mergers and Acquisitions department. While at Price Waterhouse, she played an active role in our acquisition of Gardner Merchant in 1995. Ms. Herbert-Jones joined us in 1995 and was appointed Treasurer in 1998, Deputy Chief Financial Officer in October 2000 and Group Chief Financial Officer in November 2001. She holds an M.A. in History from Oxford University and is a Chartered Accountant in England and Wales.

Vincent Hillenmeyer. Mr. Hillenmeyer began his career in 1988 with Arthur Andersen. After joining Sodexo in 1991, he served as Remote Sites Finance Manager in Cameroon, then in 1993 as District Manager for Sodexo France, Business and Industry, in 1995 as Financial Analyst for Sodexo France, Business and Industry, and in 1998 as Paris-Ile de France Regional Director, Large Accounts. In 2000, he was appointed Vice President, Special Projects, Information Systems, for Sodexo, Inc. In October 2001, he was promoted to Group Executive Vice President, Strategic Planning. He earned a degree from HEC, one of France's leading business schools.

Philip Jansen. Mr. Jansen started his career in 1988 at Procter & Gamble in various commercial roles, has been Sales, Marketing and Commercial Director with Dunlop Slazenger, before serving as Managing Director for

the Consumer Division at Telewest Communication PLC, followed by a position as Group Chief Operating Officer at MyTravel Group PLC. Philip Jansen joined Sodexho U.K. & Ireland in October 2004 as Chief Executive and since September 2005, he is also one of the Group's Chief Operating Officers. He holds a Bachelor of Science Degree in Economics from the University of Cardiff.

Nicolas Japy. Mr. Japy began his career in 1982 as an oil consultant for BEICIP. After joining the TAT airline as Programs and Development Director, he served as Managing Director of Air Vendée. He joined Sodexho in 1991 as Managing Director for Congo, and then served as Managing Director for Saudi Arabia and later for Africa. In 1998, he left Sodexho to serve as Director of North American Operations for Club Méditerranée. In October 2001, he returned as President and Chief Executive of the remote sites activity. Since September 2005, he is one of the Group's Chief Operating Officers and Chief Executive Officer of the Remote Sites activity and Food and Facilities Management Services in Asia and Australia. He holds engineering degrees from ENSEE in Grenoble and ENSPM in Paris.

Michel Landel. Mr. Landel began his career in banking with Chase Manhattan and building products with Poliet. He joined Sodexho in 1984 to manage operations in Eastern Africa, Libya and Algeria. In 1986, he was appointed to head the Remote Sites business in Africa. He was again promoted in 1989, this time to head North America operations. In particular, he helped bring about the 1998 alliance with Marriott Management Services and the creation of a joint company, Sodexho Marriott Services (SMS). In May 1999, he was named President and Chief Executive Officer, and a member of the Board of SMS, which became fully owned by Sodexho in 2001. In June 2003, he became Co-President and Chief Operating Officer of Sodexho Alliance responsible for the Food and Management Services activities in North America, the United Kingdom and Ireland, as well as for the remote site activity. In September 2005, he was appointed Chief Executive Officer of the Group. He has a degree in business and management from the European Business School.

Richard [Dick] Macedonia. Mr. Macedonia began his career with the company in 1968 in operations in Campus Services, and joined Health Care Services in 1975. He has held positions throughout the company including District Manager, Vice President of Marketing and Sales, Vice President of Business Development and later President for Sodexho, Inc.'s Health Care Services Division. He was appointed to different positions within Sodexho, Inc.: Chief Operating Officer in June 2003, President and Chief Operating Officer at the beginning of 2004 and a year later President and Chief Executive Officer. Since September 2005 he is also one of the Group's Chief Operating Officers and Worldwide Market Champion for Business and Industry, replacing Michel Landel. Mr. Macedonia is a graduate of Indiana University of Pennsylvania. He is a corporate member of both the Health Insights Foundation and the Hospital Research and Development Institute.

Jacques Pétry. Prior to joining Sodexho, Mr. Pétry spent his entire previous career with the group Lyonnaise des Eaux/Suez serving successively as Project Manager of United Water in the United States, Chief Executive of various international subsidiaries, Chairman & CEO of SITA and finally Chairman & CEO of Suez Environnement. He joined Sodexho in March 2005 as Chief Executive Officer, Continental Europe and South America. Since September 2005, he is one of the Group's Chief Operating Officers and Chief Executive Officer of Continental Europe and Latin America. He holds engineering degrees from Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées as well as an MBA from Villanova University in Pennsylvania (U.S.A.).

Clodine Pincemin. Ms. Pincemin joined us in 1974. She was later appointed to head public relations and then communications for France. Since 1991, she has held the position of Group Executive Vice President, Communications and Sustainable Development. Ms. Pincemin has a degree in French literature.

Damien Verdier. Mr. Verdier joined Sodexho in 1979 working as District Manager, then as Development Manager. He was promoted to Regional Director in 1985, Operations Director for Business and Industry France in 1991, Managing Director for Business and Industry segment in 1993 and Managing Director for France in 1998. In 2003, he became Director of Strategic Planning for Continental Europe and was appointed in September 2005 Group Executive Vice President, Marketing responsible for procurement, food offer marketing and client retention. He holds a business degree which he obtained from the Ecole Supérieure de Commerce de Nantes, France.

B. Compensation

During fiscal 2006, members of our Board of Directors received total fees, compensation and benefits from Sodexho Alliance and related companies as follows.

	Total	Total	Sodexho Alliance	Bellon SA(2)
	Fiscal 2005 (1)	Fiscal 2006 (1)	Directors' fees	
	(in euro)			
Pierre Bellon	485,867	272,703(3)	37,000	235,703
Robert Baconnier	13,600	29,900	29,900	-
Rémi Baudin	38,800	40,900	39,400	1,500
Patricia Bellinger	16,700	34,000	34,000	-
Astrid Bellon	88,664	94,296	24,000	70,296
Bernard Bellon	32,300	32,300	30,800	1,500
François-Xavier Bellon	273,869	92,796	22,500	70,296
Sophie Clamens	190,162	202,673	26,400	90,964
Paul Jeanbart	26,500	21,000	21,000	-
Charles Milhaud	19,500	16,500	16,500	-
François Périgot	32,100	36,100	36,100	-
Nathalie Szabo	161,709	181,203	30,200	76,960
Peter Thompson	10,500	24,000	24,000	-
Mark Tompkins	30,800	28,700	28,700	-

- (1) Total including directors' fees paid by Sodexho Alliance and all forms of compensation paid for positions held in Bellon SA, Sodexho Alliance, and/or Sodexho Group companies.
- (2) All forms of compensation paid for positions held in Bellon SA.
- (3) Mr. Bellon does not receive any compensation in connection with his position as Chairman of the Board of Directors of Sodexho Alliance. However, he does receive a company car, the use of an office, and secretarial support.

As a matter of French law, non-employee members of our Board of Directors may not be granted stock options.

Compensation for our executives is comprised of a fixed salary, a performance bonus tied to the achievement of annual objectives, and benefits. For fiscal 2006, the aggregate compensation received by members of the Executive Committee was €7,953,579 which included base pay totaling €4,436,007 and variable pay totaling €2,775,790. The members of the Executive Committee who were members during fiscal 2006 also received options to purchase a total of 329,500 Sodexho Alliance shares. During fiscal 2006, the total compensation paid to the Group Chief Executive Officer was as follows:

	Fixed compensation	Variable compensation	Total
	(amounts in euro)		
Michel Landel	843,447	567,943	1,516,065

In addition to fixed and variable compensation, the total amount includes €4,224 for fringe benefits and €100,451 for supplementary retirement benefits.

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The table below provides certain information regarding the options to purchase our common shares granted to executive officers.

Date of Plan	Amount(1)	Exercise Price per Share	Expiration Date
January 11, 2002	39,900	□47.00	January 10, 2007
January 11, 2002	60,000	□47.00	January 10, 2008

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January 27, 2003	215,300	□24.00	January 26, 2009
June 12, 2003	3,750	□24.00	January 26, 2009
January 20, 2004	187,500	□24.50	January 19, 2010
January 18, 2005	228,250	□23.10	January 17, 2011
January 10, 2006	329,500	□34.85	January 9, 2012

(1) These amounts have been adjusted retroactively, where appropriate, to reflect the four-for-one stock split effective March 7, 2001 and the rights offering on July 4, 2001.

During fiscal 2006, we and our subsidiaries recorded total charges of □37 million for pension, retirement and similar benefits and, as of August 31, 2006, we and our subsidiaries had accrued a total of □260 million for these items.

C. Board Practices

Our Board of Directors has 14 members. Directors are chosen for their ability to take the interests of all shareholders into account and for their recognized expertise in areas that are strategic to the company, such as international expansion, innovation, finances or services. The Board of Directors periodically reviews operations, on-going business and special transactions, defines corporate strategy, closes our interim and annual accounts, prepares shareholders' meetings, designates corporate officers to implement strategy and monitors the quality of information provided to shareholders and financial markets.

Senior executives of the company regularly inform the Board of the resources used in their respective businesses to implement the strategy defined by the Executive Committee and approved by the Board. The Board is assisted in its strategic thinking by three *ad hoc* committees:

- the Audit Committee, which prepares and monitors internal accounting procedures, supervises the application of Group financial, legal and accounting rules, proposes changes to accounting procedures, recommends the appointment and fees of our external auditors and approves their audit and non-audit services, communicates with our internal and external auditors and reports on such matters to the rest of our Board.
- the Nominating Committee for Board members and corporate officers, which examines the Chairman's proposals, prepares recommendations to present to the Board and keeps an up-to-date, confidential list of potential replacements in case a position becomes vacant; and
- the Compensation Committee, which proposes compensation packages for corporate officers and senior executives, including stock option plans.

The Audit Committee is chaired by Robert Baconnier, a financial expert, with the assistance of Francois Perigot and Mark Tompkins. Ms. Clamens and Mr. Baudin are invited to attend the Audit Committee meetings but are not members. In addition, Mr. Landel, Ms. Herbert-Jones and the Group Senior Vice President, Internal Audit are regularly invited to present their activities and to respond to committee members questions. Our external auditors report to the Audit Committee periodically on their activity and planned actions. The Chairman of the Audit Committee reports to the Board after each Audit Committee meeting. The Audit Committee met four times during fiscal 2006. The committee discussed a variety of pertinent issues including the approval of the Internal Audit Plan for fiscal 2006, an examination of the principal accounting rules applied by the Group, the transition to International Financial Reporting Standards (IFRS), the organization of the Group's finance function, the supervision of the independence and performance of the external auditors, the reports presented by the Group Senior Vice President of Internal Audit department, including its recommendations and management's action plans, the status of the CLEAR project, which is management's initiative to enhance internal control procedures, and the review of the Form 20-F. The Audit Committee also reviewed the consolidated financial statements for fiscal 2005 as well as the half-year consolidated financial statements for fiscal 2006. The committee approved the audit and non-audit engagements and fees of the Group's external audit firms and their affiliates.

The Nominating Committee is chaired by François Périgot with the assistance of Pierre Bellon, Patricia Bellinger, Rémi Baudin and Nathalie Szabo. The Nominating Committee convened two formal meetings during fiscal 2006 to review matters including the succession of the Chairman as well as that of the CEO and other members of the Executive Committee.

The Compensation Committee is chaired by Rémi Baudin, who is also Vice Chairman of the Board of Directors, with the assistance of Pierre Bellon, Patricia Bellinger and Bernard Bellon. The Compensation Committee met three times during fiscal 2006 and reviewed matters including the feasibility of a new international Employee Savings plan, new stock option plans and revised rules, and compensation packages for the Chairman and the Chief Executive Officer.

The Board of Directors also established a working group to conduct in-depth analyses of Public-Private-Partnership and Private Finance Initiative investment projects. Recommendations from this working group are made to the Board to assist it in its deliberations concerning such investments and whether to issue any related guarantees. The members of the working group include Directors Sophie Clamens, Robert Baconnier, Pierre Bellon and Mark Tompkins and senior executives including Michel Landel, Chief Executive Officer and Siân Herbert-Jones, Chief Financial Officer. The working group, which is chaired by Ms. Herbert-Jones, met three times during fiscal 2006.

The Board of Directors met six times during fiscal 2006.

There are no service contract termination benefits for Directors as such benefits are forbidden by French law.

D. Employees and Labor Relations

As of August 31, 2006, we had 332,096 employees worldwide. The table below shows the number of employees of our company and our subsidiaries by geographic zone as of August 31, 2006, 2005 and 2004.

	August 31,		
	2006	2005	2004
North America	121,981	120,157	116,772
United Kingdom and Ireland	39,079	47,515	49,053
Rest of Europe	89,374	87,270	83,491
Rest of the World	81,662	69,504	63,659
	<hr/>	<hr/>	<hr/>
Total Number of Employees	332,096	324,446	312,975

Following is a breakdown of our employees by category as of August 31, 2006, 2005 and 2004.

	August 31,		
	2006	2005	2004
Executives, middle management, site managers and supervisory staff	41,596	39,150	38,776
Front line service staff and other	290,500	285,296	274,199
	<hr/>	<hr/>	<hr/>
Total Number of Employees	332,096	324,446	312,975

Some of our employees are members of local or national trade unions, and, consequently, we have entered into various collective bargaining agreements. Pursuant to regulations in certain countries across Europe, especially in France and Belgium, various committees which represent employees meet on a regular basis. These committees are informed about and consulted on pertinent employee matters. Salaries, working conditions and other employment matters are negotiated with trade unions every year. It is our practice to renew or replace our various employee and collective bargaining agreements as and when they expire, and we are not aware of any material agreements which are not expected to be satisfactorily renewed or replaced in a timely manner. A relatively small number of our employees worldwide are subject to collective bargaining agreements, and we do not believe that a failure to renew our collective bargaining agreements on terms similar to those we have now would have a material adverse effect on our financial condition or results of operations.

Because we are a service company, we are highly dependent upon the availability of hourly or part-time wage and skilled employees. Thus, severe shortages in the supply of these employees at times of high demand for their services could materially impact our operating performance.

In France, legislation reducing the working week to 35 hours led to wide-ranging discussions with employee representatives on issues such as workplace organization, time management, flexibility and customer service.

We have not experienced any significant work disruptions or conflicts in the last few years, and we consider our relationship with our employees to be satisfactory.

E. Share Ownership

Collectively, members of the Board of Directors and the Executive Committee directly own less than 0.5% of our outstanding capital stock. Pierre Bellon and his children, Astrid Bellon, Francois-Xavier Bellon, Sophie Clamens and Nathalie Szabo, collectively own an economic interest of approximately 68.5% (representing a voting interest of approximately 82.6%) in Bellon SA, which, as of December 31, 2006, owns an economic interest of approximately 36.83% (representing a voting interest of approximately 43.59%) in us. This difference between voting and economic interests in Sodexo is attributable to the fact that a double voting right is granted to all holders of fully-paid registered shares when those shares have been registered for more than four years in the name of the same shareholder, as described in [Item 10.B. Additional Information]Memorandum and Articles of Association. As of December 31, 2006, 10,483,145 of the shares owned by Bellon SA had double voting rights. Bernard Bellon, who is Pierre Bellon's brother, and members of the Bellon family own, as of December 31, 2006, an economic interest of approximately 13% in Bellon SA. The table below sets forth share ownership information, exclusive of these indirect interests, for these individuals and for Bellon SA as of December 31, 2006.

Name	Number of Shares Owned
Board of Directors	
Bellon SA	58,572,917(1)
Pierre Bellon	*(2)
Robert Baconnier	*(2)
Remi Baudin	*(2)
Patricia Bellinger	*(2)
Astrid Bellon	*(2)
Bernard Bellon	*(2)
François-Xavier Bellon	*(2)
Sophie Clamens	*(2)
Paul Jeanbart	*(2)
Charles Milhaud	*(2)
François Périgot	*(2)
Nathalie Szabo	*(2)
Peter Thompson	*(2)
H.J. Mark Tompkins	*(2)
Executive Committee	
Elisabeth Carpentier	*(2)
Pierre Henry	*(2)
Siân Herbert-Jones	*(2)
Vincent Hillenmeyer	*(2)

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Philip Jansen	*(2)
Nicolas Japy	*(2)
Michel Landel	*(2)
Dick Macedonia	*(2)
Clodine Pincemin	*(2)

Name	Number of Shares Owned
Jacques Petry	*(2)
Damien Verdier	*(2)

(1) Pierre Bellon owns 0.01% of the outstanding shares of Bellon SA; Astrid Bellon, François-Xavier Bellon, Sophie Clamens and Nathalie Szabo and their children each own an economic interest of 17.1% in Bellon SA. At any ordinary shareholders' meeting of Bellon SA, Pierre Bellon has a voting interest of 65.13% and each of Astrid Bellon, François-Xavier Bellon, Sophie Clamens and Nathalie Szabo and their children has a voting interest of 2.09%. At any extraordinary meeting, Pierre Bellon has a voting interest of 0.01% and each of Astrid Bellon, François-Xavier Bellon, Sophie Clamens and Nathalie Szabo and their children has a voting interest of 18.37%. Bernard Bellon and other members of the Bellon family own an economic interest of 13% in Bellon SA. At any ordinary shareholders' meeting, Bernard Bellon has a voting interest of 17.1%. At any extraordinary meeting, Bernard Bellon has a voting interest of 2.86%. Bellon SA is the beneficial owner of approximately 36.83% of our outstanding shares.

(2) Indicates beneficial ownership of less than 1% of the shares outstanding.

We do not grant options to members of the Board of Directors. None of our Board members has any options.

As of December 31, 2006, members of our Executive Committee held, in the aggregate, options to acquire 1,064,200 shares of our common stock.

Name	Amount	Exercise Price per Share	Expiration Date
Board of Directors			
Pierre Bellon	□	□	□
Robert Baconnier	□	□	□
Remi Baudin	□	□	□
Patricia Bellinger	□	□	□
Astrid Bellon	□	□	□
Bernard Bellon	□	□	□
François-Xavier Bellon	□	□	□
Sophie Clamens	□	□	□
Paul Jeanbart	□	□	□
Charles Milhaud	□	□	□
François Périgot	□	□	□
Nathalie Szabo	□	□	□
Peter Thompson	□	□	□
H.J. Mark Tompkins	□	□	□
Executive Committee			
Elisabeth Carpentier	10,000	□47.00	January 10, 2007
	35,000	□24.00	January 26, 2009
	35,000	□24.50	January 19, 2010
	35,000	□23.10	January 17, 2011
	35,000	□34.85	January 9, 2012
Pierre Henry	3,400	□47.00	January 10, 2007

Explanation of Responses:

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	7,300	□24.00	January 26, 2009
	5,000	□24.50	January 19, 2010
	10,000	□23.10	January 17, 2011
	35,000	□34.85	January 9, 2012
Siân Herbert-Jones	15,000	□47.00	January 10, 2007
	40,000	□24.00	January 26, 2009
	40,000	□24.50	January 19, 2010
	40,000	□23.10	January 17, 2011

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Name	Amount	Exercise Price per Share	Expiration Date
Vincent Hillenmeyer	40,000	€34.85	January 9, 2012
	4,000	€47.00	January 10, 2008
	17,000	€24.00	January 26, 2009
	17,000	€24.50	January 19, 2010
	17,000	€23.10	January 17, 2011
Philip Jansen	17,000	€34.85	January 9, 2012
	8,000	€23.10	January 17, 2011
Nicolas Japy	20,000	€34.85	January 9, 2012
	2,500	€47.00	January 10, 2007
	15,000	€24.00	January 26, 2009
	10,000	€24.50	January 19, 2010
Michel Landel	15,000	€23.10	January 17, 2011
	30,000	€34.85	January 9, 2012
	30,000	€47.00	January 10, 2008
	60,000	€24.00	January 26, 2009
	45,000	€24.50	January 19, 2010
Dick Macedonia	60,000	€23.10	January 17, 2011
	63,000	€34.85	January 9, 2012
	26,000	€47.00	January 10, 2008
	10,000	€24.00	January 26, 2009
	3,750	€24.00	January 26, 2009
	17,500	€24.50	January 19, 2010
Jacques Petry	26,250	€23.10	January 17, 2011
	27,500	€34.85	January 9, 2012
	30,000	€34.85	January 9, 2012
Clodine Pincemin	6,500	€47.00	January 10, 2007
	19,000	€24.00	January 26, 2009
	10,000	€24.50	January 19, 2010
	10,000	€23.10	January 17, 2011
	12,000	€34.85	January 9, 2012
Damien Verdier	2,500	€47.00	January 10, 2007
	12,000	€24.00	January 26, 2009
	8,000	€24.50	January 19, 2010
	7,000	€23.10	January 17, 2011
	20,000	€34.85	January 9, 2012
Total	1,064,200		

Our Board of Directors approved four Sodexo Alliance Stock Option Plans on January 10, 2006. The granting of stock options to our employees under these plans had been previously approved by our shareholders at our Extraordinary Shareholders Meeting of February 3, 2004. The exercise price of these plans is €34.85. Options under these plans will be valid from the grant date through January 9, 2012. Under the plans, 25% of the options granted vest and become exercisable on each anniversary of the grant date, such that the entire option is vested after four years on January 10, 2010. Options under these plans, totaling 967,452, were granted to 373 employees. No options granted under these plans may be transferred by the optionholder other than by will or the laws of intestacy. Stock options under these four plans are governed by the laws of France (specifically,

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articles L225.117 through L225.185 of the French Code de Commerce). Sodexo Alliance shares underlying any American Depositary Shares to be delivered to Sodexo, Inc. optionholders will be purchased by Sodexo Alliance on the open market.

Our Board of Directors approved one Sodexo Alliance Stock Option Plan on September 13, 2005. The granting of stock options to our employees under this plan had been previously approved by our shareholders at our Extraordinary Shareholders' Meeting of February 3, 2004. The exercise price for this plan is \$28.07. Options under this plan will be valid from the grant date through September 12, 2011. Under this plan, 25% of the options granted

vest and become exercisable on each anniversary of the grant date, such that the entire option is vested after four years on September 12, 2009. Options under this plan, totaling 10,000 were granted to 1 employee. No options granted under this plan may be transferred by the optionholder other than by will or the laws of intestacy. Stock options under this plan are governed by the laws of France (specifically, articles L225.117 through L225.185 of the French Code de Commerce). Sodexo Alliance shares underlying any American Depositary Shares to be delivered to Sodexo, Inc. optionholders will be purchased by Sodexo Alliance on the open market.

Our Board of Directors approved one Sodexo Alliance Stock Option Plan on June 16, 2005. The granting of stock options to our employees under this plan had been previously approved by our shareholders at our Extraordinary Shareholders' Meeting of February 3, 2004. The exercise price for this plan is $\square 26.04$. Options under this plan will be valid from the grant date through June 15, 2011. Under this plan, 25% of the options granted vest and become exercisable on each anniversary of the grant date, such that the entire option is vested after four years on June 15, 2009. Options under this plan, totaling 20,000 were granted to 2 employees. No options granted under this plan may be transferred by the optionholder other than by will or the laws of intestacy. Stock options under this plan are governed by the laws of France (specifically, articles L225.117 through L225.185 of the French Code de Commerce). Sodexo Alliance shares underlying any American Depositary Shares to be delivered to Sodexo, Inc. optionholders will be purchased by Sodexo Alliance on the open market.

Our Board of Directors approved three Sodexo Alliance Stock Option Plans on January 18, 2005. The granting of stock options to our employees under these plans had been previously approved by our shareholders at our Extraordinary Shareholders' Meeting of February 3, 2004. The exercise price for these plans is $\square 23.10$. Options under these plans will be valid from the grant date through January 17, 2011. Under the plans, 25% of the options granted vest and become exercisable on each anniversary of the grant date, such that the entire option is vested after four years on January 17, 2009. Options under these plans, totaling 1,000,050 were granted to 454 employees. No options granted under these plans may be transferred by the optionholder other than by will or the laws of intestacy. Stock options under these three plans are governed by the laws of France (specifically, articles L225.117 through L225.185 of the French Code de Commerce). Sodexo Alliance shares underlying any American Depositary Shares to be delivered to Sodexo, Inc. optionholders will be purchased by Sodexo Alliance on the open market.

Our Board of Directors approved three Sodexo Alliance Stock Option Plans on January 20, 2004. The granting of stock options to our employees under these plans had been previously approved by our shareholders at our Extraordinary Shareholders' Meeting of February 21, 2000. The exercise price for these plans is $\square 24.50$. Options under these plans will be valid from the grant date through January 19, 2010. Under the plans, 25% of the options granted vest and become exercisable on each anniversary of the grant date, such that the entire option is vested after four years on January 19, 2008. Options under these plans, totaling 1,009,683 were granted to 494 employees. No options granted under these plans may be transferred by the optionholder other than by will or the laws of intestacy. Stock options under these three plans are governed by the laws of France (specifically, articles L225.117 through L225.185 of the French *Code de Commerce*). Sodexo Alliance shares underlying any American Depositary Shares to be delivered to Sodexo, Inc. optionholders will be purchased by Sodexo Alliance on the open market.

Our Board of Directors approved four Sodexo Alliance Stock Option Plans in 2003. The granting of stock options to our employees under these plans had been previously approved by our shareholders at our Extraordinary Shareholders' Meeting of February 21, 2000. The first three plans were approved on January 27, 2003 and the fourth plan on June 12, 2003. The exercise price for these plans is $\square 24.00$. Options under these plans will be valid from the grant date through January 26, 2009. Under the January 27, 2003 plans, 25% of the options granted vest and become exercisable on each anniversary of the grant date, such that the entire option is vested after four years on January 27, 2007. Options under these plans, totaling 2,917,800, were granted to 1,344 employees. Under the June 12, 2003 plan, 25% of the options granted vest and become exercisable on January 27 of each year such that the entire option is vested on January 27, 2007. Options under this plan, totaling 84,660, were granted to nine employees. No options granted under these plans may be transferred by the optionholder other than by will or the laws of intestacy. Stock options under these four plans are governed by the laws of France (specifically, articles L225.177 through L225.185 of the French *Code de Commerce*). Sodexo Alliance shares underlying any American Depositary Shares to be delivered to Sodexo, Inc. optionholders will be

purchased by Sodexo Alliance on the open market.

Our Board of Directors approved two Sodexho Alliance Stock Option Plans prior to December 31, 2002. The granting of stock options to our employees under these plans had been previously approved by our shareholders at our Extraordinary Shareholders' Meeting of February 21, 2000. The first plan was approved on September 17, 2002. Options under this plan, totaling 12,000, were granted to a single newly hired employee and will be valid from September 17, 2002 to March 31, 2008. The options vest in full on April 1, 2006 and may be exercised between April 1, 2006 and March 31, 2008 with an exercise price of €47.00. The second plan was approved on October 10, 2002. Options under this plan, totaling 3,220, were granted to 46 employees and will be valid from October 10, 2002 to October 10, 2007. The options vest in full on October 10, 2006 and may be exercised between October 10, 2006 and October 10, 2007 with an exercise price of €21.87. For both plans, if an optionholder terminates his or her employment due to disability, retires or dies, his or her options will vest in proportion to the time he or she has been continuously employed by us. For both plans, no options granted under this plan may be transferred by the optionholder other than by will or the laws of intestacy. Stock options granted under both plans are governed by the laws of France (specifically, articles L225.177 through L225.185 of the French *Code de Commerce*). Any Sodexho Alliance shares or Sodexho Alliance shares underlying any American Depositary Shares to be delivered to Sodexho, Inc. optionholders will be purchased by Sodexho Alliance on the open market.

Our Board of Directors approved the Sodexho Alliance Stock Option Plan A on January 11, 2002. The granting of stock options to our employees under this plan had been previously approved by our shareholders at our Extraordinary Shareholders' Meeting of February 21, 2000. Options under this plan will be valid from January 11, 2002 to January 10, 2007 and will be granted to our employees primarily located outside of the United States. The options granted under Plan A vest in full four years from the date of grant and may be exercised between January 11, 2006 and January 10, 2007. If an optionholder terminates his or her employment due to disability, retires or dies, his or her options will vest in proportion to the time he or she has been continuously employed by us. No options granted under this plan may be transferred by the optionholder other than by will or the laws of intestacy. Approximately 475 of our employees were granted options pursuant to this plan. Plan A stock options are governed by the laws of France (specifically, articles L225.177 through L225.185 of the French *Code de Commerce*).

On January 11, 2002, our Board of Directors approved the Sodexho Alliance Stock Option Plan B, under which options will be granted to employees of Sodexho, Inc. and its affiliates. The issuance of shares to our employees under this plan had been previously approved by our shareholders at our Extraordinary Shareholders' Meeting of February 21, 2000. Options in Sodexho Alliance shares granted under this plan vest in full four years from the date of grant, and optionholders may exercise the options they receive during the two-year period between January 11, 2006 and January 10, 2008. If an optionholder terminates his or her employment due to disability, retires or dies, his or her options will vest in proportion to the time he or she has been continuously employed by us. No options granted under this plan may be transferred by the option holder other than by will or the laws of intestacy. Approximately 772 of our employees were granted options pursuant to this plan. Any Sodexho Alliance shares or Sodexho Alliance shares underlying any American Depositary Shares to be delivered to Sodexho, Inc. optionholders will be purchased by Sodexho Alliance on the open market.

At the Extraordinary Shareholders' Meeting of February 13, 1996, our shareholders renewed the authorization given to our Board at the February 23, 1993 Extraordinary Shareholders' Meeting to issue shares to our employees through an employee stock ownership plan, the InterEnterprise Mutual Fund. Pursuant to this authorization, our Board of Directors has approved a separate stock ownership plan in each of the years between 1996 and 1999, inclusive, funded through market repurchases of our shares on the Paris Bourse. In December 2000, the Board authorized new issuances of shares to employees participating in our international employee stock ownership plan.

In August, 2006, enrollment commenced for the Sodexho, Inc. Employee Stock Purchase Plan (the "Plan"). Shares of Sodexho Alliance, traded on the Euronext Paris, are available for purchase to employees of Sodexho, Inc., (the North American subsidiary of Sodexho Alliance) through the Plan by payroll deduction. Each Plan participant may designate between 1% and 8% of his or her gross pay to purchase shares at a 10% discount to the market price of a Sodexho Alliance share on the Euronext at the end of each 5 and ½ month offering period. Offering periods commence on September 1, 2006 and there are two during each Plan year which aligns with the company's fiscal year. Shares are purchased on the Euronext for allocation to participants. During the life of the

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plan, no more than 1,800,000 shares may be allocated to participants and no more than 600,000 shares may be allocated during any one Plan year. No more than 400,000 shares may be allocated to participants during the first Plan year commencing

September 1, 2006. Shares allocated to participants may not be sold for 2 years from the date of allocation to the participant or else the participant forfeits the 10% discount.

In 2001 we created the Sodexo Alliance International Employee Stock Ownership Plan in which approximately 150,000 employees of Sodexo Alliance and Sodexo Alliance's majority-owned subsidiaries were eligible to participate. This plan was open for cash contributions from April 23, 2001 until September 19, 2001, and it offered two options to subscribe for shares. The first, called Alliance Plus, allowed employees to invest up to 2.5% of their gross annual pay. Each cash contribution was matched on a non-recourse basis by an unaffiliated bank with an additional contribution equal to nine times the employee's investment to be used towards the purchase of additional shares. If the stock appreciates in value during the term of the plan, the employees repay the matching funds to the bank and a portion of the stock's appreciation from the proceeds of the sale of the stock. If the stock depreciates in value, the employee is not responsible for reimbursing the bank for its loss. Under the second plan, called Alliance Classic, employees were given the option of investing up to 25% of their gross annual compensation towards the purchase of shares at a discount to fair market value. The two plans were not mutually exclusive, and employees could select a combination of the two for investment. Under both plans, employee investments cannot be withdrawn without penalty for a period of five years from the time of investment. The employee in both cases benefited from a discount of up to 20% of the fair market price of our shares at the time the shares were issued. On October 18, 2001, the Board of Directors issued 1,385,848 shares with a par value of \$4 each and an issue price of \$44.10 per share for United States employees and \$41.51 for other employees.

As of August 31, 2006, 28,469 employees held 2,297,246 Sodexo Alliance shares, representing 1.44% of the outstanding shares of Sodexo Alliance and 1.96% of voting rights.

Prior to our acquisition of the portion of SMS we did not already own in June 2001, approximately 6.4 million SMS stock options had been granted under the SMS 1998 Stock Incentive Plan, 2.7 million of which were vested and 3.7 million of which were unvested at the time of the acquisition. Under the terms of this plan, SMS stock options were granted to officers and key employees at an exercise price not less than the market price of SMS stock on the date of grant. Most of the SMS options vest 25% each year during the four years following the date of grant and expire ten years following the date of grant. If an SMS optionholder dies during his or her employment, all such person's SMS stock options become fully vested and may be exercised up to one year after his or her death to the extent vested at the time of his or her death. In the event an SMS employee is terminated, such employee's SMS stock options may be exercised up to three months after the date of his or her termination to the extent vested at the time of his or her termination. No SMS stock option may be transferred by the optionee other than by will or the laws of intestacy.

Certain members of SMS's management received restricted stock units in connection with their employment. These units have vested 25% each year during the four years following the date of the grant. During fiscal 2005 all units vested. Pursuant to their vesting, restricted stock units were converted into the right to indirectly receive our ordinary shares or our ADSs.

Pursuant to the terms of our agreement to acquire the 53% of Sodexo, Inc. we did not already own, vested SMS stock options were cancelled in exchange for a cash payment equal to the option spread (i.e., the difference between the exercise price and the tender price offered by us for SMS shares), and unvested SMS stock options were converted into the right to indirectly purchase our ordinary shares or our ADSs. The unvested restricted stock units were converted into the right to indirectly receive, pursuant to their vesting, our ordinary shares or our ADSs. Any Sodexo Alliance shares or Sodexo Alliance shares underlying any American Depositary Shares to be delivered to SMS optionholders will be purchased by Sodexo Alliance on the open market.

As of December 31, 2006, 2,544 members of management held 6,204,876 options to purchase Sodexo Alliance shares, representing approximately 4% of the shares of Sodexo Alliance on a fully-diluted basis.

F. Comparison of French and U.S. Corporate Governance Practices

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As a result of the Group's activity on two different stock exchanges, the Group's corporate governance structure includes the mandatory provisions of French corporate governance law and the securities laws and regulations of

both France and the U.S., as well as the rules that are promulgated by both public markets. As a result, the Group believes that its corporate governance structure is robust and reflects the evolving best practices of corporate governance in the U.S. and France. Disclosure of significant differences between our corporate governance practices and those required of domestic companies by the New York Stock Exchange listing standards is available on Sodexo Alliance's internet website at www.sodexo.com.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Below is a diagram illustrating our ownership as of December 31, 2006.

* Includes 3.45% held by Caisse des Dépôts et Consignations and 9.97% held by Arnhold and S. Bleichroeder.

The following shareholders known to management beneficially own 5% or more of our shares: Bellon SA, a French company controlled by our chairman, Pierre Bellon, and members of his family, Arnhold and S. Bleichroeder, on behalf of several funds it manages, including First Eagle Fund, Inc., and the Caisse des Dépôts et Consignations, a French bank. As of December 31, 2006, Bellon SA beneficially owned 58,572,917 shares of the company (representing approximately 36.83% of our outstanding share capital and 43.59% of the voting power relating to our outstanding share capital), and Pierre Bellon and his children beneficially owned approximately 68.5% of the outstanding capital stock of Bellon SA. As of the same date, Bernard Bellon and other members of the

Bellon family owned 13% of the outstanding capital stock of Bellon SA. As of the same date, Sofinsod, one of our wholly-owned subsidiaries, held an indirect interest of approximately 6.81% in Sodexho Alliance, SA through its direct interest of approximately 18.5% in Bellon SA. Excluding the Bellon SA shares owned by our subsidiaries, as of December 31, 2006, Pierre Bellon and his children owned 84.1% of the outstanding capital stock of Bellon SA, and Bernard Bellon and other members of the Bellon family owned 15.9% of such stock.

As of December 31, 2006, Arnhold and S. Bleichroeder owned 9.97% of outstanding shares and 8.69% of voting rights. As of December 31, 2006, the Caisse des Dépôts et Consignations owned 3.45% of outstanding shares and 4.64% of voting rights.

To management's knowledge, there have not been any significant changes in Bellon SA's ownership interest in Sodexho Alliance during the past three years, and there are no agreements granting Bellon SA or any other shareholder different voting rights from our other shareholders. As disclosed in [Item 10.B. Additional Information] Memorandum and Articles of Association Relating to Shares, a double voting right is granted to all holders of fully-paid registered shares when those shares have been registered for more than four years in the name of the same shareholder.

As of August 31, 2006, our shares were owned by approximately 53,505 shareholders, including approximately 28,469 people acquiring their shares through our various employee stock ownership plans (together, our employees own approximately 1.44% of our outstanding capital stock). French citizens hold approximately 4.91% of our shares, while French institutional investors hold approximately 22.48% of our shares. To the best of our knowledge and after having made reasonable inquiries, as of August 31, 2006, foreign shareholders held approximately 32.4% of our shares. This figure may not be entirely accurate because we can obtain only limited information regarding the beneficial owners of our shares.

We are not directly or indirectly owned or controlled by another corporation, other than Bellon SA, or by any government or other natural or legal person.

B. Related Party Transactions

To management's knowledge, since September 1, 2003 no loans have been made by Sodexho Alliance, Bellon SA or any of their subsidiaries to or for the benefit of key Sodexho Alliance management personnel or close members of their families, Bellon SA, any of its affiliates or any other enterprise in which a substantial interest in the voting power is owned, directly or indirectly, by any of the foregoing persons or entities.

In the course of our business, we have occasionally entered into contracts with certain of our affiliates. The material terms of those material affiliate contracts which are currently in force or have been in force during some portion of the last three fiscal years are described below.

On December 30, 1991, we entered into an agreement with Felix Bellon SA, the predecessor of Bellon SA, for consulting and advisory management services. The contract renews automatically every year, but it can be terminated on three months' notice by either party. Amounts invoiced under this contract totaled [4.8 million in fiscal 2006.

A list of Sodexho Alliance, SA's intercompany loans, advances, deposits and guarantees outstanding, other than those with wholly-owned subsidiaries, as of August 31, 2006 is provided below.

	Loans and advances given and outstanding as of August 31, 2006	Amount of deposits and guarantees given and outstanding as of August 31, 2006	Largest amount outstanding as of each of August 31, 2006, 2005 and 2004	Total Amount outstanding as of August 31, 2006
(thousands of euro)				
French subsidiaries				
Société Marseillaise de restauration et de services			383	
Sodexho Pass International	1,485		12,781	1,485
Universal Sodexho SAS			53	
STNB	472		708	472
Sodexho France SAS	1,501		1,576	1,501
Universal Sodexho Afrique	2,159		2,246	2,159
Other	1		176	1
Foreign subsidiaries				
Sodexho Hellas	9		69	9
Sodexho Tanzania			16	
Sodexho Pass Chile			396	
Spirit Cruises			4,464	
Sodexho Chile	5,254		5,600	5,254
Sodexho Healthcare Services Ltd			30 447	
Sodexho Ltd			61,619	
Siges Chile	7 782		8 257	7 782
Sodexho Education Services Ltd			15,000	
Sodexho Defence Services Ltd			28,290	
Sodexho Holdings Ltd	15,149		15,149	15,149
Sodexho Malaysia	169		175	169
Primary Management Aldershot			22,715	
Universal Sodexho Partnership			15,286	
Harmondsworth	26,702		26,702	26,702
Sodexho Argentina	762		1,131	762
Universal Sodexho Scotland			8,866	
Sodexho Luxembourg			274	
Sakhalin Support Services			5,498	
Kelvin Catering Ltd			883	
Universal Services Europe Ltd			1,893	
Universal Sodexho Norway			1,881	
Sodexho Maroc			365	
PT Universal Ogden Indonesia			413	
Other	386		386	386

Foreign affiliates

Serco Sodexho Defense
Services

5,492

TOTAL

-

61,831

61,831

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8. FINANCIAL INFORMATION**A. Consolidated Statements and Other Financial Information.**

See Item 17.

Legal proceedings**McReynolds v Sodexho, Inc.**

On April 27, 2005, Sodexho, Inc. agreed to settle a class action lawsuit brought in the United States in order to avoid protracted legal proceedings and without admitting any liability. The judge approved the settlement on August 10, 2005. Under the terms of the settlement, Sodexho, Inc. committed to make monetary payments to eligible class members and to the class attorneys for a total amount of up to \$80 million, as well as to continue to promote its diversity programs. As of August 31, 2006 all amounts had been paid to the class members and to the class lawyers.

Sodexho Pass do Brazil

Following an investigation into the financial condition of Banco Santos by the intervenor representing the Central Bank of Brazil, Sodexho Pass do Brazil is involved in disputes with Banco Santos and a mutual fund concerning the existence of balances outstanding for the principal amount of €19 million, based on current exchange rates. Sodexho Pass do Brazil, along with Banco Santos and the mutual fund have all commenced legal proceedings against the other in this matter. Sodexho Pass do Brazil continues to vigorously deny that it owes any amounts in connection with these balances.

We are involved in a number of other legal proceedings incidental to the normal conduct of our business. We do not believe that liabilities relating to these proceedings are likely to be, in the aggregate, material to our business or our consolidated financial position.

Dividends

We have paid dividends in each year since 1976. The payment and amount of dividends depend on our earnings and financial condition and other factors that our Board of Directors deem relevant. Dividends are recommended by our Board and are then voted on by the shareholders at the shareholders' ordinary general meeting. We have paid dividends in euro since 2000.

Dividends paid to holders of American Depositary Shares (ADSs) or Sodexho Alliance shares who are not residents of France will generally be subject to French withholding tax at a rate of 25%. Investors in our ADSs or shares are strongly recommended to read the section of this prospectus entitled "Item 10E Additional Information Taxation" for information on the consequences of such abolition and to consult their own advisors with respect to the tax consequences of an investment in ADSs or shares.

The table below sets forth, for the fiscal years indicated, the amount of dividends declared per share excluding the French *avoir fiscal* and the amount of dividends declared per share including the French *avoir fiscal* (before deduction of applicable French withholding tax). Dividends declared for a given fiscal year are paid in the following fiscal year.

Year(1)	Dividend per share excluding <i>avoir fiscal</i>	Dividend per share including <i>avoir fiscal</i>	Shares outstanding at the date of payment	Total dividend paid
	€	€		€ (in millions)

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2002	0.61	0.60	0.915	0.90	159,021,416	97.0
2003	0.61	0.67	0.915	1.00	159,021,565	97.0
2004(2)	0.70	0.84	-	-	159,026,413	111.3
2005(2)	0.75	0.91	-	-	159,026,413	119.3
2006(2)(3)	0.95	1.22	-	-	159,026,413	151.1

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- (1) Pursuant to French law, payment of dividends must be made within nine months following the end of the fiscal year to which they relate.
- (2) Effective for dividends paid after January 1, 2005, there is no longer a right to a tax credit (*avoir fiscal*).
- (3) Subject to the shareholders' approval at the Annual Meeting on January 30, 2007.

B. Significant Changes

Not applicable.

ITEM 9. THE OFFER AND LISTING

A. Listing Details

The principal trading market for our common shares, which have a par value of \$4 each, is Euronext Paris (formerly the Paris Bourse), where they have been listed since 1983. From 1998 until 2005, our shares were included in the CAC 40 benchmark index of Euronext Paris. The table below sets forth, for the periods indicated, the reported high and low prices and average daily trading volume (in shares) for our outstanding shares on Euronext Paris and its predecessor, the Paris Bourse (all amounts have been restated to reflect stock splits).

Our Articles of Association (*statuts*) provide that fully-paid common shares may be held in either registered or bearer form at the option of the shareholders.

Prior to the listing of our shares on the New York Stock Exchange, effective April 3, 2002, there was no public trading market in the United States for our shares or the ADSs. ADS trading volumes from September 1, 2005 through December 31, 2006 averaged 8,000 shares per day.

Fiscal Year	High	Low	Average daily trading volume (in shares)
	\$	\$	
2002	55.75	25.10	574,261
2003	30.83	17.95	683,519
2004	28.15	20.16	812,089
2005	29.78	19.40	698,542
2006	42.09	28.00	501,219

Fiscal Year	High	Low	Average daily trading volume (in shares)
	\$	\$	
2005			
First Quarter	23.61	19.40	773,291
Second Quarter	24.82	21.81	797,456
Third Quarter	26.70	23.51	795,647
Fourth Quarter	29.78	25.23	427,774

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2006	□	□	
First Quarter	34.85	28.00	488,207
Second Quarter	38.58	33.55	483,247
Third Quarter	40.32	34.05	613,748
Fourth Quarter	42.09	33.11	419,673
July	40.00	37.01	503,584
August	42.09	38.60	310,110
September	44.65	40.61	379,727

Fiscal Year	High	Low	Average daily trading volume (in shares)
October	44.15	41.48	320,571
November	45.10	41.65	343,971
December	47.59	43.59	369,702

B. Plan of Distribution

Not Applicable.

C. Markets

See Item 9.A.

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION**A. Share Capital**

We have only one class of share capital, consisting of common shares with a nominal value of $\text{€}4$ per share. All of our outstanding shares are fully-paid. Our Articles of Association (*statuts*) provide that fully-paid shares may be held in registered or bearer form at the option of the shareholder. The most recent survey on August 31, 2006 found 24,158 identified holders of bearer shares and 1,096 holders of registered shares.

In accordance with French law concerning dematerialization of securities, the ownership rights of shareholders are represented not by share certificates but rather by book entries. We maintain a share account with Société Générale for all shares in registered form, which is administered by Société Générale. In addition, we maintain separate accounts in the name of each shareholder either directly or, at a shareholder's request, through the shareholder's accredited intermediary. Each shareholder account shows the name of the holder, the number of shares held and, in the case of shares held through an accredited intermediary, the fact that the shares are held through such intermediary. Société Générale, as a matter of course, issues confirmation to each registered shareholder as to shares registered in the shareholder's account, but these confirmations are not documents of title.

Shares held in bearer form are held on the shareholder's behalf in an account maintained by an accredited intermediary and are registered in an account which the accredited intermediary maintains with Société Générale. That account is separate from our share account with Société Générale. Each accredited intermediary maintains a record of shares held through it and will issue certificates of registration for the shares it holds. Shares held in bearer form may only be transferred through accredited intermediaries and Société Générale. Our *statuts* permit us to request that Société Générale provide us at any time with the identity of the holders of our shares or other securities granting immediate or future voting rights held in bearer form and with the number of

shares or other securities so held.

Our *statuts* do not contain any restrictions relating to the transfer of shares. Under French law, registered shares must be converted into bearer form before being traded on Euronext Paris and, accordingly, must be registered in an

account maintained by an accredited intermediary. A shareholder may initiate a transfer by giving instructions to the relevant accredited intermediary. A fee or commission is payable to the broker involved in the transaction, regardless of whether the transaction occurs within or outside of France. No registration tariff is normally payable in France unless a transfer instrument has been executed in France.

As of August 31, 2006 and December 31, 2006, our share capital, as authorized in our *statuts*, was 636,105,652, represented by 159,026,413 shares. Our Board updates our *statuts* regularly to take into account increases in share capital due to the issuance of shares in connection with employee stock ownership plans, the exercise of stock options, warrants and subscription rights and any conversion of convertible bonds. Between August 31, 2006 and December 31, 2006, we issued no shares for these purposes.

As of August 31, 2006 and December 31, 2006, we directly owned 3,085,785 and 2,904,617 shares, roughly 1.94% and 1.83% of total share capital, with par value of 4 per share. Sofinsod, one of our wholly-owned subsidiaries, holds an indirect interest of approximately 6.81% in Sodexho Alliance, SA through its interest of approximately 18.5% in the capital of Bellon SA.

Equity-Linked Securities

On January 10, 2006, the Board of Directors issued 967,452 options.

On September 13, 2005, the Board of Directors issued 10,000 options.

On June 16, 2005, the Board of Directors issued 20,000 options.

On January 18, 2005, the Board of Directors issued 1,000,050 options.

On January 20, 2004, the Board of Directors issued 1,108,683 options.

On June 12, 2003, the Board of Directors issued 84,660 options.

On January 27, 2003, the Board of Directors issued 2,917,800 options.

On September 17, 2002, the Board of Directors issued 12,000 options.

On October 10, 2002, the Board of Directors issued 3,220 options.

At the Extraordinary Shareholders' Meeting of February 13, 1996, our shareholders authorized the Board to issue bonds with equity warrants in an aggregate face amount not to exceed 304,898,000. On May 21, 1996, the Board approved the issue of 304,898,000 in debt pursuant to this authorization at a face value of 762 per bond. These bonds were redeemed in 2004. Each of the 400,000 issued bonds carried a warrant giving the right to subscribe one share of our common stock, without preemptive subscription rights, at a price of 411.61 until June 7, 2004. Following our increase in share capital which took effect in December 1997, each warrant entitled the holder to subscribe for 1.02 shares of common stock for 411.61. After the April 1998 bonus share issue, each warrant entitled the holder to subscribe for 4.08 shares per warrant. Following our four-for-one stock split effective March 7, 2001 and the capital increase in June 2001, each warrant currently entitles the holder to 16.66 shares per warrant. The exercise price remained unchanged at 411.61 through June 7, 2004. In 2004, a total of 291 warrants were exercised and 4,848 shares were issued. The warrants expired on June 7, 2004 and were withdrawn from the market.

Changes in Share Capital

The table below indicates the changes in our share capital in the fiscal years ending August 31, 2002, 2003, 2004, 2005 and 2006 and in the period commencing August 31, 2006 and ending December 31, 2006, retroactively adjusted, where appropriate, to reflect our four-for-one stock split effective March 7, 2001. The

warrants expired on June 7, 2004 and were withdrawn from the market.

Date	Shares outstanding before new issue	Type of transaction	Shares created
		International Employee Stock	
October 18, 2001	157,559,654	Ownership Plan (2)	1,385,848
December 10, 2001	158,945,502	Exercise of stock options (1)	4,173
December 18, 2001	159,949,675	Exercise of warrants (1)	2,499
January 11, 2002	158,952,174	Exercise of stock options (1)	8,180
January 31, 2002	158,960,354	Exercise of warrants (1)	16
February 25, 2002	158,960,370	Exercise of stock options (1)	5,726
February 28, 2002	158,966,096	Exercise of warrants (1)	51,230
April 17, 2002	159,017,326	Exercise of stock options (1)	4,090
October 1, 2002	159,021,416	Exercise of warrants (1)	149
February 28, 2004	159,021,565	Exercise of warrants (1)	366
June 7, 2004	159,021,931	Exercise of warrants (1) (3)	4,482

- (1) Please see our disclosure in this Annual Report on Form 20-F regarding our options and warrants.
- (2) Please see our description of the Sodexo Alliance International Employee Stock Ownership Plan described in Item 6.E. Directors, Senior Management and EmployeesShare Ownership for the terms of this plan. These shares were issued to employees at a discount of 15% to 20%, depending upon the jurisdiction in which the shares were issued to our employees, from the fair market value of the shares at the time of issuance.
- (3) Pursuant to the notice issued on May 21, 1996 by Sodexo Alliance and approved by the French Autorité des Marchés Financières the warrants expired on June 7, 2004 and have been withdrawn from the market.

Authorizations

At the Extraordinary Shareholders Meeting of January 31, 2006, our shareholders authorized the Board to increase our issued capital on one or more occasions, at any time over the 26 month period from such date, by issuing common shares, warrants and share equivalents with or without preemptive subscription rights. The shareholders authorized these issuances to be funded in cash or by capitalizing reserves. The issuances of capital are subject to the following restrictions: share issues funded with cash may not exceed an aggregate par value of 63,000,000 at any one time; issues of debt securities may not have the effect of increasing our indebtedness by more than 540,000,000 and the aggregate par value of share issues funded by capitalizing reserves may not exceed the amount of treasury reserves. This authorization canceled the Extraordinary Shareholders Meeting authorization of February 3, 2004 pertaining to the same subject matter.

At the Annual Shareholders Meeting of January 31, 2006, our shareholders authorized the Board of Directors to repurchase shares of our stock for a period of 18 months from the date of the meeting. The maximum purchase price authorized for each share was 45.00, and the maximum number of shares to be repurchased is an amount equal to 10% of the issued shares or the limits specified by law. Pursuant to this authorization, we purchased 605,000 shares on the open market during fiscal 2006.

At the Annual Shareholders Meeting of February 8, 2005, our shareholders authorized the Board of Directors to repurchase shares of our stock for a period of 18 months from the date of the meeting. The terms of this repurchase program have been approved by the French Autorité des Marchés Financiers. The maximum purchase price authorized for each share was 40.00, and the maximum number of shares to be repurchased is an amount equal to 10% of the issued shares or the limits specified by law. Pursuant to this authorization, we purchased 977,349 shares on the open market during fiscal 2005.

B. Memorandum and Articles of Association

The following summary contains a description of the material provisions of our Articles of Association (statuts), which does not purport to be complete and is qualified in its entirety by reference to our statuts, an English translation of which is attached hereto as an exhibit, and French company law.

Registration and Corporate Purpose

Sodexo is a *société anonyme à Conseil d'Administration*, a form of limited liability company established under French law. Our bylaws were registered in Versailles, France on December 31, 1974 under the number 301,940,219, Code APE 741 J.

Our objects and purposes are set out in Article 2 of our *statuts*. These include

- studying and providing all services in connection with the organization of catering;
- operating restaurants, bars, hotels and any business related to catering, the hotel industry, hotel services, tourism, leisure;
- providing, in whole or in part, the services required for the operation, maintenance and management of office, commercial, industrial, leisure, health and educational establishments and buildings, and providing services connected with the operation and maintenance, in whole or in part, of facilities associated with the foregoing;
- providing installation, maintenance, repair and replacement services related to any type of facility;
- providing consultancy services and studying the economic, financial and technical aspects of all projects and services connected with the operation or organization of the above-mentioned businesses and, specifically, all transactions involving advice relating to the operation or organization of the above-mentioned businesses;
- creating, purchasing and holding companies, irrespective of their corporate purpose; and
- engaging in any business transactions directly or indirectly related to the foregoing or to any similar or related objects.

Directors

We are managed by a Board of Directors. The Board of Directors is invested with all permissible powers relating to third parties within the scope of our objects, subject to limitations prescribed by our shareholders and French law. Under French law, the Board of Directors prepares and presents the year-end accounts to the shareholders and convenes shareholders' meetings. In addition, the Board of Directors reviews and monitors our economic, financial and technical strategies.

The Board of Directors is composed of a minimum of three members and a maximum of 18 members appointed at the ordinary general meeting of the shareholders. The Board of Directors is authorized to act in all circumstances in the name of Sodexo Alliance, subject to our corporate purpose and to those powers granted by law or at shareholder meetings. Under French law, Directors are liable for violations of French legal or regulatory requirements applicable to *sociétés anonymes*, violation of our *statuts* or mismanagement. A Director may be held liable for such actions both individually and jointly with the other directors. The Executive Committee directs our general strategy and guides our international development.

The Directors' term of office was six years until February 5, 2002. This term was changed to three years at the Extraordinary Shareholders' meeting of February 5, 2002. Any Director may stand for reelection. A Director appointed to replace another Director whose term of office has expired can only remain in office for the remaining period of the term of office of his or her predecessor. Except in the event of termination of employment if the Director is a salaried employee, or in the event of resignation, removal or death, the term of office of a Director expires at the end of the ordinary general meeting held during the year in which the Director's term of office expires. Our *statuts* allow for the election of directors at staggered times. At the annual Meeting of

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Shareholders in February 2005, the Board of Directors membership increased by two, to a total of 14 Directors as follows: one director whose term expires in February 2005 has asked that his term not be renewed as he wished to retire from the Board; three of our directors' terms were renewed and three new directors were elected.

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The Board of Directors elects a Chairman from among its members and may elect one or more Vice Chairmen. The Chairman must retire no later than the end of the ordinary general meeting of shareholders held in the year in which he or she reaches 85 years of age. The shareholders may, during the following ordinary general meeting, extend this age limit.

Meetings of the Board of Directors, which are held as often as necessary, are normally convened and presided over by the Chairman or Vice Chairman. A quorum consists of one-half of the members of the Board of Directors, and decisions are taken by a vote of the majority of the members present or represented by other members of the Board of Directors. A Director may give a proxy to another Director but a Director cannot represent more than one other member at any particular meeting. Members of the Board of Directors represented by another member at meetings do not count for purposes of determining the existence of a quorum.

Transactions between Us and Our Directors

Any agreement between us and any one of the members of the Board of Directors that is not in the ordinary course of our business is subject to the prior authorization of the disinterested members of Board of Directors. The same applies to agreements between us and another company if one of the members of the Board of Directors is the owner, general partner, manager, director, general manager or member of the executive or supervisory board of the other company.

Directors' Compensation

The aggregate compensation of the Board of Directors is determined at the ordinary general meeting of the shareholders. The Board of Directors then divides up this compensation among its members. It may allocate exceptional compensation to some of its members for assignments undertaken by them. In addition, compensation may be granted to directors on a case-by-case basis for special assignments. The Board may also authorize the reimbursement of travel and accommodation expenses as well as other expenses incurred by Directors in the corporate interest.

Directors' Borrowing Powers

All loans or borrowings may be decided by the Board of Directors within the limits duly authorized by the ordinary general meeting of the shareholders.

Directors' Age Limits

The number of Directors having reached age 70 may not at any time exceed one-third of the total number of Directors in office. Any such Directors may remain in office only until the end of the next ordinary general meeting of shareholders. In the event that the number of Directors reaching the age of 70 during one year exceeds one-third of the total number of Directors in office, the order of retirement is decided by drawing lots during a meeting of the Board of Directors.

Directors' Share-Ownership Requirements

Each member of the Board of Directors must own at least four hundred of our shares.

Rights, Preferences and Restrictions Relating to Shares

We currently have one class of shares, consisting of common shares with a nominal value of ₹4 per share. Our *statuts* provide that fully-paid shares may be held in registered or bearer form. Shares not fully-paid may be held in registered form only. The rights, preferences and restrictions attaching to the shares are set forth below.

Dividend Rights

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We may distribute dividends to our shareholders from net income in each fiscal year (after deductions for depreciation and provisions), as increased or reduced by any profit or loss carried forward from prior years and as

reduced by the legal reserve fund described below, after payment of the initial dividend described below. These distributions are subject to applicable provisions of French law.

Under French law, we are required to contribute a minimum of 5% of our annual net income in each fiscal year, after a reduction for any losses carried forward from previous years, to a legal reserve fund. The obligation to make this minimum contribution ceases if and so long as we maintain a legal reserve equal to 10% of the aggregate nominal value of our issued share capital. The legal reserve is distributable only upon our liquidation. The remaining net income, increased by any profits carried forward, constitutes the distributable profits.

On the recommendation of the Board of Directors, shareholders may decide to carry forward all or part of any distributable profits remaining after payment of the initial dividend to the next fiscal year as retained earnings or to allocate them to (i) the creation of reserves; (ii) contingency funds for the purpose of total or partial redemption of our shares; or (iii) the shareholders as additional dividends. The Board of Directors may propose a dividend for approval by the shareholders at the ordinary general meeting.

Right of Inspection

Any shareholder has a right of access to all of our corporate documents (e.g., shareholder lists, corporate minutes, financial records) required to assess the management of the Company.

We must distribute dividends to our shareholders *pro rata* according to their shareholdings. Dividends are payable to holders of shares outstanding on the date of the shareholders' meeting approving the distribution of dividends, or, in case of interim dividend, on the date the Board of Directors meets and approves the distribution of interim dividends. The actual dividend payment date is decided by the shareholders at an ordinary general meeting or by the Board of Directors, if no decision is taken by the shareholders. We must pay any dividends within nine months of the end of the fiscal year unless otherwise authorized by court order. Under French law, dividends not claimed within five years of the date of payment are forfeited.

If proposed by the Board of Directors and decided at the ordinary general meeting, each shareholder may be granted at the ordinary general meeting a choice between payment of the dividend in cash or in shares, for all or for part of the dividend, according to the procedures set out under French law.

Voting Rights

Subject to the limitations on voting rights described below under "Shareholders' Meetings" and "Disclosure of Shareholdings," each shareholder is entitled to one vote per share at any general meeting of our shareholders. A double voting right is granted to holders of fully-paid registered shares when those shares have been registered for more than four years in the name of the same shareholder. Any share whose ownership is transferred (certain intra-family transactions excepted) or which is converted into a bearer share loses the right to the double vote. Double voting rights also attach to any shares issued by right to shareholders in proportion to the number of shares with double voting rights which such shareholders held prior to the issuance. Votes can be cast by proxy or by mail. Proxies can only be exercised by the shareholder's spouse or by another shareholder. Our *statuts* do not grant our shareholders the right to cumulate their votes when electing directors and French law does not automatically grant this right to shareholders.

Rights in the Event of Liquidation

In the event that we are liquidated, our assets remaining after payment of our debts, liquidation expenses and all of our remaining obligations will be distributed to repay the nominal value of our shares in full. Any surplus will then be distributed *pro rata* among our shareholders.

Preferential Right of Subscription

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Under French law, shareholders have preemptive rights to subscribe for cash issuances of new shares or other securities giving rights, directly or indirectly, to acquire additional shares on a *pro rata* basis. A two-thirds majority of the shares entitled to vote at an extraordinary general meeting may vote to waive preemptive subscription rights

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with respect to any particular offering. French law requires that the Board of Directors and our independent auditors present reports that specifically address any proposal to waive preemptive subscription rights. In the event of a waiver, the issue of securities must be completed within the period prescribed by law. The shareholders may also decide at an extraordinary general meeting to give the existing shareholders a non-transferable preferential right to subscribe to the new securities, for a limited period of time. A two-thirds majority of the shares entitled to vote at an extraordinary general meeting may also grant to existing shareholders a non-transferable form of preemptive right to subscribe to any new securities that may affect our share capital. Shareholders may also notify us that they wish to waive their own preemptive subscription rights with respect to any particular offering if they so choose.

Preemptive subscription rights, if not previously waived, are transferable during the subscription period relating to a particular offering of shares and may be listed on Euronext Paris.

Redemption of Shares

Under French law, our Board of Directors is entitled to redeem a set number of shares as authorized by our shareholders at an extraordinary shareholders' meeting, provided that the capital reduction has not been undertaken in an attempt to mask the effect of losses. In the case of such an authorization, the shares redeemed must be cancelled within one month after the end of the offer to purchase such shares from shareholders. One notable exception to this rule, however, is that shares redeemed on the open market need not be cancelled if the company redeeming the shares grants options on or awards those shares to its employees within one year of the redemption.

Liability to Further Capital Calls

Shareholders are liable for corporate liabilities only up to the nominal amount of the shares they hold.

Changes to Shareholders' Rights

A two-thirds majority vote at the extraordinary shareholders' meeting is required to change our *statuts*, which set out the rights attaching to our shares. The extraordinary shareholders' meeting may not increase shareholders' obligations, except in the event that different classes of shares are merged. However, in such case, any decision involving a change in the rights attaching to a class of shares shall be final only following its ratification by a two-thirds majority of a special meeting of the shareholders of the class concerned.

Shareholders' Meetings

In accordance with French law, there are two types of shareholders' general meetings: ordinary and extraordinary. Ordinary general meetings are required for matters such as the election of directors, the appointment of statutory auditors, the approval of annual accounts, the declaration of dividends and the issuance of debt. Extraordinary general meetings are required for the approval of matters such as amendments to our *statuts*, approval of mergers, increases or decreases in share capital, the creation of a new class of equity securities and the authorization of the issuance of investment certificates or securities convertible or exchangeable into equity securities.

Convocation of Meetings

The Board of Directors is required to convene an annual ordinary general meeting of shareholders, which must be held within six months of the end of our fiscal year, to approve the annual financial statements for the fiscal year. Other ordinary or extraordinary general meetings may be convened at any time during the year. Meetings of shareholders may be convened by the Board of Directors or, if the Board of Directors fails to call such a meeting, by our statutory auditors or by a court-appointed agent. The court may be requested to appoint an agent by (i) one or several shareholders holding at least 10% of our share capital; (ii) any interested party in emergency cases; or (iii) certain duly qualified associations of shareholders. The notice calling a meeting must state the matters to be considered at the meeting.

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At least 30 days prior to the date set for any general meeting of shareholders, a preliminary notice must be sent to the *Autorité des Marchés Financiers* (AMF), the administrative agency responsible for overseeing the French

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securities markets, and published in France in the *Bulletin des Annonces Légales Obligatoires* (bulletin of obligatory legal announcements) (the "BALO"). This preliminary notice must contain the agenda of the meeting and a draft of the resolutions to be considered. Within 10 days of the notice, one or several shareholders holding a specified percentage of shares (determined on the basis of a formula relating to capitalization) or a duly qualified association of shareholders holding a specified percentage of voting rights may propose additional resolutions to be voted on at the meeting. At least 15 days prior to the date set for a general meeting on its first call, and at least six days before any meeting's second call, notice must be sent by mail to all holders of registered shares who have held such shares for more than one month prior to the notice. Notice of the meeting shall also be given in a journal authorized to publish legal announcements in the administrative region (*département*) in which we are registered, as well as in the *BALO*, with prior notice to the *AMF*. The notice must state the type, agenda, place, date and time of the meeting. No action may be taken at a meeting on any matter not listed on the agenda for that meeting, subject to exceptions relating to the dismissal of directors under certain circumstances and to certain miscellaneous matters.

Attendance of and Voting at Meetings

Attendance and the exercise of voting rights at general meetings of shareholders are subject to certain conditions. A holder of registered shares must have his shares registered in his own name in a shareholder account maintained by us or on our behalf at least five days prior to the meeting. A holder of shares in bearer form must obtain from the financial intermediary with whom the shares have been deposited a certificate indicating the number of bearer shares owned and attesting to the fact that the shares are not transferable until the time fixed for the meeting.

All shareholders who have properly registered their shares have the right to participate in general meetings, either in person or by proxy, and to vote either by proxy or by mail according to the number of shares they hold. Proxies will be sent to any shareholder on request, but they can only appoint the shareholder's spouse or another shareholder as proxy. Any vote made by mail shall be deemed valid if received by us at least three days prior to the date of the meeting, but the attendance of the shareholder automatically cancels any proxy previously executed by that shareholder or any previous vote made by mail.

Under French law, shares of a company held by entities controlled directly or indirectly by that company are not entitled to voting rights, are not counted for quorum or majority purposes, and do not receive dividends.

Under French law, the presence in person or by proxy of shareholders holding an aggregate of not less than 20% (in the case of an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase affecting reserves, such as a stock dividend) or 25% (in the case of any other extraordinary general meeting) of voting shares is necessary for a quorum. If a quorum is not reached at any meeting, that meeting is adjourned. There is no quorum requirement upon recommencement of an adjourned ordinary general meeting. Upon the reconvening of an extraordinary general meeting, the presence in person or by proxy of shareholders having not less than 20% of the eligible voting rights is necessary for a quorum, except when an increase in our share capital is proposed through the incorporation of reserves, profits or a share premium, in which case the quorum requirements are those applicable to ordinary general meetings.

At an ordinary general meeting or at an extraordinary general meeting deciding upon any capital increase by incorporation of reserves, a simple majority of the votes cast is required to pass a resolution. At any other extraordinary general meeting, a two-thirds majority of the votes cast is required to pass a resolution. However, a unanimous vote is required to increase the liabilities of shareholders. Abstention from voting by those present or represented by proxy is deemed to be a vote against the resolution submitted to a vote.

Limitation on Security Ownership

There is no limitation, under French law or in our *statuts* on the right of non-French residents or non-French security holders to own or, where applicable, to vote our securities.

Change in Control/Anti-Takeover

There are no provisions in the *statuts* that would have the effect of delaying, deferring or preventing a change in our control and that would operate only with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries. There also are not any provisions in our *statuts* that allow for the issuance of preferred stock upon the occurrence of takeover attempts or the addition of other "anti-takeover" measures without a shareholder vote.

Disclosure of Shareholdings

French law provides that any individual or entity, acting alone or in concert with others, that acquires, directly or indirectly, more than 5%, 10%, 15%, 20%, 25%, 33%, 50%, 66%, 90% or 95% of our shares or voting rights attached to our shares, or whose holdings fall below any of these thresholds, must notify us of the number of shares or voting rights that person or entity holds within five calendar days of the date the threshold has been crossed. The individual or entity must also notify the *Autorité des Marchés Financiers* (financial markets authority) (the "AMF") within five Euronext Paris trading days of the date on which the threshold is crossed. If the shareholder fails to comply with this notification requirement, the shares or voting rights in excess of the relevant threshold will be deprived of voting rights or the voting rights will not be exercisable, as the case may be, for two years from the date on which the owner of the shares or voting rights complies with the notification requirement. In addition, any shareholder who fails to comply with the above requirements may have all or part of his voting rights suspended for up to five years by the Commercial Court at the request of our Chairman, any shareholder or the AMF, and may be subject to other penalties.

In addition to the requirements set out in French law, our *statuts* provide that every person or corporate body who acquires or ceases to hold, directly or indirectly, 2.5% or more of our shares must notify us within a period of 15 days from the date when the threshold is exceeded. If the shareholder fails to comply with the notification requirement, any shareholder holding at least 5% of the authorized capital can cause the shares in excess of this threshold to be deprived of voting rights for two years following the date of the notification.

In order to permit shareholders to give the notice required by law or by our *statuts*, we are obligated to publish information disclosing the total number of votes eligible to be cast at our annual ordinary general meeting in the *BALO* within 15 calendar days of the general meeting. In addition, if the number of eligible votes changes by at least 5% between two ordinary general meetings, we are required to publish the number of votes then available in the *BALO* within 15 calendar days of the change and to provide the AMF with a written notice. In order to facilitate compliance with the notification requirements, a holder of ADSs may notify the Depositary, and the Depositary shall immediately forward the notification to us and the AMF.

Under the regulations of the AMF, and subject to limited exemptions, anyone acquiring 33 1/3% or more of the share capital or voting rights of a French listed company must initiate a public tender offer for the balance of our share capital (including, for these purposes, all securities convertible into or exchangeable for equity securities).

Changes in Capital

As of December 31, 2006 our share capital was €636,105,652 million, divided into 159,026,413 shares at a par value of €4 each, all fully-paid and of the same class. Pursuant to authorizations granted by the shareholders at previous meetings, see "Authorizations," we are entitled to increase this share capital under certain circumstances.

Pursuant to French law, our share capital may be increased only with the approval of the shareholders at an extraordinary general meeting upon the recommendation of the Board of Directors. Our share capital may be increased by the issuance of additional shares, by the issuance of a new class of equity securities or by an increase in the nominal value of the shares. The shareholders may delegate to the Board of Directors the powers required to effect in one or more stages (subject to the limitations provided by French law) any increase in share capital previously authorized by the shareholders. A reduction in our share capital can be accomplished either by decreasing the nominal value of the shares or by reducing the number of outstanding shares. The number of

outstanding shares may be reduced either by an exchange of shares or by our repurchase and cancellation of shares.

C. Material Contracts

We are not currently party to any contract, nor have we been party to any contract within the last two years, which we believe to be individually material to our business or operations.

D. Exchange Controls

The French commercial code currently does not limit the right of non-residents of France or non-French persons to own and vote shares. However, non-residents of France must file an administrative notice with French authorities in connection with the acquisition of a controlling interest in our company. Under existing administrative rulings, ownership of 20% or more of our share capital or voting rights is regarded as a controlling interest, but a lower percentage might be held to be a controlling interest in some circumstances depending on factors such as the acquiring party's intentions and the acquiring party's ability to elect directors, and financial reliance on us by the relying party.

Under current French exchange control regulations, there are no limitations on the import or export of capital or on the amount of payments that may be remitted by us to non-residents. Laws and regulations concerning foreign exchange control do require, however, that all payments or transfers of funds (including payments of dividends to foreign shareholders) made by a French resident to a non-resident be handled by an accredited intermediary. In France, all registered banks and substantially all credit establishments are accredited intermediaries.

E. Taxation

The following discussion describes the material French and United States federal income tax consequences of the acquisition, ownership and disposition of ADSs or shares by a U.S. Holder (as defined below). The following summary is for general information only. It is not intended, and should not be construed, as legal or professional tax advice. This discussion is not exhaustive of all possible tax considerations. It does not purport to be a comprehensive description of all the tax considerations that may be relevant. This discussion does not address U.S. state, local and non-U.S. tax consequences (other than French tax consequences). The discussion applies only to U.S. Holders who hold ADSs or shares as capital assets for United States federal income tax purposes and it does not address special classes of holders, such as:

- certain financial institutions;
- insurance companies;
- dealers and certain traders in securities or foreign currencies;
- persons holding ADSs or shares as part of a hedge, straddle, conversion or other integrated transaction;
- persons whose functional currency for United States federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for United States federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt organizations or retirements plans, except to a limited extent under "[French Taxation of US Holders of Our Ordinary Shares or ADSs] [Taxation of Dividends]";
- persons that own or are deemed to own 10% or more of our voting stock;

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- persons who acquired ADSs or shares pursuant to the exercise of any employee stock option or otherwise as compensation;
- persons that are not entitled to the benefits of the Convention between the US and France for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital of August 31, 1994 (the "Treaty"); or
- persons whose ownership of our ordinary shares or ADSs is connected with the conduct of business through a permanent establishment or fixed base in France.

This discussion is based on the French *Code Général des Impôts* and the regulations enacted thereunder, the U.S. Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions, final, temporary and proposed U.S. Treasury regulations, and the Treaty, all as currently in effect and subject to change, possibly with retroactive effect. This discussion is also based in part on representations by the depositary and

assumes that each obligation provided for in, or otherwise contemplated by, the deposit agreement or any other related document will be performed in accordance with its terms.

In addition, this discussion below does not address any aspects of tax laws other than French tax laws or US federal income tax laws, the possible application of US federal gift or estate taxation, or the potential application of the alternative minimum tax.

Accordingly, holders and prospective holders of our ordinary shares or ADSs are strongly urged to consult their own tax advisers as to the specific consequences to them under French tax law, US federal income tax law, and other tax laws of the purchase, ownership, and disposition of our ordinary shares or ADSs, including, in particular, the effect of any state or local taxes or taxes other than French taxes and US federal income taxes.

As used herein, the term "U.S. Holder" means a beneficial owner of ADSs or shares that is, for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or
- an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

In general, a U.S. Holder of ADSs will be treated as the holder of the underlying shares represented by those ADSs for United States federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rates of tax applicable to dividends received by certain non-corporate U.S. Holders. Accordingly, the analysis of the creditability of French taxes and the availability of the reduced tax rates for dividends received by certain non-corporate U.S. Holders of ADSs, each described below, could be affected by actions taken by parties to whom ADSs are pre-released.

The following discussion assumes that Sodexo is not, and will not become, a passive foreign investment company, as discussed below under [Passive Foreign Investment Company Considerations](#).

Taxation of Dividends

In France, dividends are paid out of after-tax income.

The French Finance Law of 2004 abolished the *avoir fiscal* and the *précompte* with respect to dividends paid to French individual shareholders as from January 1, 2005. French non-individual shareholders are no longer entitled to use the *avoir fiscal* attached to dividends paid on or before December 31, 2004 as from January 1, 2005. To compensate for the abolition of the *avoir fiscal*, the French Finance Law of 2005 provides that, for dividends paid as from January 1, 2006, French individual residents will be taxed only on 60% of the dividends received by them and will be entitled to a tax allowance equal to €1,525 or €3,050, depending on the marital status of the holder. In addition, such shareholders will be entitled to a new tax credit equal to 50% of the dividend received by them, capped at €115 or €230 depending on the marital status of the holder. For dividends paid between January 1, 2005 and December 31, 2005, French individual residents were taxed on only 50% of the dividends received and were entitled to a tax allowance equal to €1,220 or €2,440. The level of the tax credit depending on the marital status of the holder was the same as that for 2006.

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Under French domestic law, dividends paid to non-residents are normally subject to a 25% withholding tax.

Under the Treaty, the rate of French withholding tax on dividends paid to a U.S. Holder whose ownership of ADSs or shares is not effectively connected with a permanent establishment or a fixed base in France is reduced to 15%. Dividends paid to an Eligible U.S. Holder and an Eligible Tax Exempt Holder, each as defined below, will be

subject to the reduced rate of 15% at the time of payment, provided that such holder establishes before the date of payment that such holder is a resident of the United States under the Treaty in accordance with the procedures described below. As a consequence of the enactment of the provisions of the French Finance Law of 2004 mentioned above, non-individual and individual Eligible U.S. Holders are no longer entitled to claim a refund of the *avoir fiscal* for dividends paid. However, according to the French Guidelines 5-I-2-05 released on August 11, 2005, an individual Eligible U.S. Holder will be entitled to a tax credit equal to 50% of the received distribution, capped at €115 or €230 according to the taxpayer's family status. This tax credit is reimbursed less a 15% withholding tax. Procedures for claiming the payment in respect of the new tax credit mentioned above for dividends paid as from January 1, 2005 have yet to be published.

An Eligible U.S. Holder is a U.S. Holder whose ownership of ADSs or shares is not effectively connected with a permanent establishment or fixed base in France and who is (1) an individual or other non-corporate holder that is a resident of the United States as defined pursuant to the provisions of the Treaty, (2) a United States corporation, other than a regulated investment company, (3) a United States corporation, which is a regulated investment company, provided that less than 20% of its shares are beneficially owned by persons who are neither citizens nor residents of the United States or (4) a partnership, or trust that is treated as a resident of the United States as defined pursuant to the provisions of the Treaty, but only to the extent that its partners, beneficiaries or grantors would qualify under clause (1) or (2) above.

An Eligible Tax-Exempt Holder is a tax-exempt United States pension fund or other tax-exempt entity (including certain state-owned institutions, not-for-profit organizations and individuals with respect to dividends beneficially-owned by such individuals and derived from an investment in a tax-favored retirement account) who is nonetheless eligible for the reduced withholding tax rate of 15% provided for by the Treaty subject to certain formalities.

Dividends paid to an Eligible U.S. Holder will be subject to the reduced withholding tax rate of 15% at the time the dividend is paid if (i) such holder duly completes and provides the paying agent with the relevant Treasury Form RF1 A EU-No. 5052 (the "Form") before the date of payment of the relevant dividend, or (ii) if such holder duly completes and provides the institution in charge of the management of the stock account (*établissement gestionnaire du compte-titres*) with a simplified certificate (the "Certificate") in accordance with the French Guidelines 4 J-1-05 released on February 25, 2005. Dividends paid to any U.S. Holder that has not filed the relevant completed form or Certificate before the dividend payment date will be subject to French withholding tax at the rate of 25%. Such holder may claim a refund of the excess withholding by completing and providing the French tax authorities with the relevant form before December 31st of the year following the year during which the dividend is paid.

The forms or the Certificate, together with their respective instructions, are available from the United States Internal Revenue Service and at the *Centre des Impôts des Non-Residents* (10, rue du Centre, 93465 Noisy-le-Grand Cedex, France). The depositary will provide to all U.S. Holders of ADRs the forms or Certificate, together with the respective instructions, and will arrange for the filing with the French tax authorities of all forms and Certificates completed by U.S. Holders of ADRs and returned to the depositary within sufficient time. Procedures for claiming the payment in respect of the new tax credit mentioned above for dividends paid as from January 1, 2005 have yet to be published.

Distributions received by a U.S. Holder on ADSs or shares, other than certain pro rata distributions of shares, will constitute foreign-source dividend income to the extent paid out of Sodexho's current or accumulated earnings and profits as determined for United States federal income tax purposes. The amount of this dividend will include any amounts withheld in respect of French taxes. Subject to applicable limitations that may vary depending upon a U.S. Holder's individual circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2011 will be taxable at a maximum rate of 15%. Non-corporate U.S. Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit the availability of these rates. The dividend will not be eligible for the dividends-received deduction generally allowed to corporate U.S. Holders. For taxable years beginning on or prior to December 31, 2006, such dividends will generally constitute passive income or, in certain cases, financial services income for foreign tax credit purposes. For taxable years beginning after December 31, 2006, such dividends will generally constitute passive category income or, in

certain cases, general category income.

Dividends paid in euro will be included in a U.S. Holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of the U.S. Holder's (or in the case of ADSs, the depository's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, the U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the amount of such dividend is not converted into U.S. dollars on the date of its receipt.

French taxes withheld from dividends on ADSs or shares at a rate not exceeding the rate provided in the Treaty will generally be creditable against a U.S. Holder's United States federal income tax liability, subject to applicable restrictions and limitations that may vary depending upon the U.S. Holder's circumstances and the discussion above regarding concerns expressed by the U.S. Treasury. Instead of claiming a credit, a U.S. Holder may elect to deduct French withholding taxes in computing its taxable income, subject to generally applicable limitations. U.S. Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to make effective use of foreign tax credits.

Taxation of Capital Gains

Under the Treaty, French tax generally will not be levied on any capital gain derived from the sale of ADSs or shares by a U.S. Holder eligible for the benefits of the Treaty.

A U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of ADSs or shares, which will be long-term capital gain or loss if the holder has held such ADSs or shares for more than one year. The amount of the U.S. Holder's gain or loss will be equal to the difference between the amount realized on the sale or other disposition and such holder's tax basis in the ADSs or shares, as determined in U.S. dollars. Any gain or loss will generally be U.S.-source for foreign tax credit purposes.

French Estate and Gift Taxes

Under "The Convention Between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to taxes on Estates, Inheritance and Gifts of November 24, 1978," a transfer of ADSs or shares by gift or by reason of the death of a U.S. Holder that would otherwise be subject to French gift or inheritance tax, respectively, will generally not be subject to French tax unless (1) the donor or the transferor is domiciled in France at the time of making the gift, or at the time of his or her death, or (2) the ADSs or shares were used in, or held for use in, the conduct of a business through or pertaining to a permanent establishment fixed base in France. Prospective investors in shares or ADSs should consult their own advisors as to the applicability of the November 24, 1978 Convention mentioned above, and in particular as to the interpretation of article 8 of said Convention.

French Wealth Tax

The French wealth tax does not apply to any U.S. Holder that is not an individual or, in the case of natural persons, who owns alone or with their parents, directly or indirectly, ADSs or shares representing the right to less than 25% of our profits. Prospective investors in shares or ADSs should consult their own advisors as to the applicability of the Treaty and in particular to the interpretation of its article 23.

Passive Foreign Investment Company Considerations

Sodexo believes that it was not a passive foreign investment company ("PFIC") for United States federal income tax purposes for the taxable year ended August 31, 2006. However, because PFIC status depends upon the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that Sodexo will not be considered a PFIC for any taxable year. If Sodexo were treated as a PFIC for any taxable year during which a U.S. Holder held ADSs or shares, certain adverse United States federal income tax consequences could apply.

U.S. Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and to backup withholding unless the U.S. Holder is a corporation or other exempt recipient or, in the case of backup withholding, the holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's United States federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the United States Internal Revenue Service.

F. Dividends and Paying Agents

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

We are subject to the information requirements of the Securities Exchange Act of 1934 (the "Exchange Act") except that, as a foreign issuer, we are not subject to the proxy rules under Section 14 of the Exchange Act and our officers, directors and principal shareholders are not subject to the insider short-swing profit disclosure and recovery provisions under Section 16 of the Exchange Act. In accordance with the Exchange Act reporting requirements applicable to us, we file annual reports on Form 20-F with and submit certain information on Form 6-K, including our quarterly revenue announcements and our semi-annual profit and loss information (both of which will be prepared in accordance with French GAAP and generally will not include a reconciliation to U.S. GAAP), to the United States Securities and Exchange Commission (the "SEC"). The information that will be filed on Form 6-K will be substantially less detailed than interim financial statements required of a domestic registrant pursuant to Article 10 of Regulation S-X. You may read and copy any document that we file at the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, D.C. 20549 and view them on line at www.sec.gov. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect our filings at the regional offices of the SEC located at Citicorp, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and at 233 Broadway, New York, New York 10279 and view them on-line at www.sec.gov. To provide shareholders with regular information about our businesses, financial results and share price, we also offer our annual report in French and English, including the "Reference Document" filed with the AMF. You may request a copy of the aforementioned filings and annual report at no cost by writing or telephoning the offices of Sodexo Alliance, SA, attention Jean-Jacques Vironda, Investor Relations, 3, avenue Newton, 78180 Montigny-le-Bretonneux, France. Our telephone number for these requests is 011-33-0-1-30-85-72-03, our fax number is 011-33-0-1-30-85-51-81 and our e-mail address is jean-jacques.vironda@sodexoalliance.com.

I. Subsidiary Information

Not Applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate and foreign exchange rate risks associated with underlying assets and liabilities. We manage this exposure as it pertains to our borrowings through the use of interest rate, currency and cross-currency derivative contracts. These swap contracts are entered into with major high credit quality institutions, in accordance with procedures and within limits approved by our Board of Directors. Our policy is not to use derivative contracts for any other purpose than hedging our financial exposures.

Foreign Exchange Risk Exposure

Foreign exchange risk exposure arises from the possibility that changes in foreign currency exchange rates will impact the value of revenues, expenses, assets and liabilities denominated in foreign currencies. Our results of operations, financial position, and cash flows are directly dependent on the periodic monitoring and adjustment of the balance of assets and liabilities in each of our main operating currencies, which are the euro, the U.S. dollar and the British pound sterling. The impact of fluctuations in exchange rates is mitigated to a large extent by the fact that within each of our subsidiaries, revenues and the related expenses are generally denominated in the same currency. In order to match the cash flows pertaining to borrowing instruments held by our subsidiaries with the revenues to which they relate, we occasionally enter into currency or cross-currency swap contracts.

Interest Rate Exposure

In accordance with our policy, we may borrow at variable rates and use interest rate swaps in order to fix future interest payments, effectively converting borrowings from floating to fixed rates. As of August 31, 2006, including the effect of interest and cross-currency swap agreements, approximately 73% of our borrowings were at fixed rates, with an average interest rate of 5.7%.

Sensitivity Analysis

A hypothetical strengthening or weakening by 10% in the value of the dollar relative to the euro would have resulted in an increase or decrease, respectively, of our fiscal 2006 group net income by approximately \pm 13 million. A hypothetical strengthening or weakening by 10% in the value of the British pound sterling relative to the euro would have resulted in an increase or decrease, respectively, of our fiscal 2006 group net income by approximately \pm 2.5 million.

A hypothetical increase of 1% in average interest rates would have resulted in an increase in fiscal 2006 interest expense of approximately \pm 4.8 million on our variable rate borrowings.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. As a result, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is

recorded, processed, summarized and reported as and when required. However, as a result of our evaluation, we noted certain areas where our processes and controls can be improved. The Group is committed to continuing to implement and improve internal controls and our risk management processes and this remains a key priority for the Group for fiscal 2007. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Group's internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Group;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Group are being made only in accordance with authorizations of the Group's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of internal control over financial reporting as of August 31, 2006 based upon the framework as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, management concluded that the Group's internal control over financial reporting was effective as of August 31, 2006. Management's assessment of the effectiveness of the Group's internal control over financial reporting as of August 31, 2006 has been audited by PriceWaterhouseCoopers Audit, an independent registered public accounting firm, as stated in their report which is included herein.

Change in Internal Control over Financial Reporting

No change in the Group's internal control over financial reporting occurred as of the end of the period covered by this report that has materially affected, or is reasonably likely to materially affect the Group's internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Mr. Robert Baconnier, who serves on the audit committee, has the background and qualifications necessary to be considered an audit committee financial expert.

ITEM 16B. CODE OF ETHICS

In 2003, the Board of Directors adopted a written Code of Conduct for Senior Managers. Each of Sodexo Alliance's senior financial managers, including the Group's Chief Executive Officer, Chief Financial Officer, Chief Accountant, and others performing similar functions, signed a statement acknowledging his or her compliance

with the Code. The full text of the Code of Conduct is available on Sodexo Alliance's internet website at www.sodexo.com/sodexhocorp/en/permanent_elements/library.

ITEM 16C. PRINCIPAL AUDITOR FEES AND SERVICES

(millions of euros)	PricewaterhouseCoopers				KPMG			
	Amount		Percentage		Amount		Percentage	
	Fiscal 2006	Fiscal 2005	Fiscal 2006	Fiscal 2005	Fiscal 2006	Fiscal 2005	Fiscal 2006	Fiscal 2005
Audit and audit-related:								
Audit fees	5.2	5.9	52%	89%	3.9	3.8	95%	
Audit-related fees	4.5	0.4	45%	6%	2.7	0.1	3%	
Total audit and audit-related fees	9.7	6.3	97%	95%	6.6	3.9	98%	
Other non-audit services:								
Tax, legal and human resources consulting	0.3	0.3	3%	5%	0.2	0.1	2%	
Total other services	0.3	0.3	3%	5%	0.2	0.1	2%	
Total	10.0	6.6	100%	100%	6.8	4.0	100%	

The fees paid by Group subsidiaries to accounting firms other than PricewaterhouseCoopers and KPMG in connection with the audit of their financial statements totaled €0.6 million for the year ended August 31, 2006.

Included in audit fees for fiscal 2005 are amounts of €1.6 million and €1.5 million for PricewaterhouseCoopers and KPMG, respectively, relating to the audits of financial statements prepared in accordance with International Financial Reporting Standards.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY SODEXHO ALLIANCE AND AFFILIATED PURCHASERS**PURCHASES OF EQUITY SECURITIES BY SODEXHO ALLIANCE AND AFFILIATED PURCHASERS**

Period	Total Number of Shares Purchased	Average Price Paid per Share (in euros)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(4)
September 2005				12,510,482
October 2005				12,576,039
November 2005				12,775,020
December 2005				12,919,671
January 2006				13,315,872
February 2006	151,698	36.07	151,698(1)	13,278,143
March 2006	248,302	35.28	248,302(1)	13,169,803
April 2006				13,192,969
May 2006	260,000	36.00	260,000(2)	13,008,679
June 2006	345,000	34.05	345,000(2)	12,682,142
July 2006	93,351	38.66	93,351(3)	12,755,098
August 2006	160,072	40.17	160,072(3)	12,816,856
September 2006	110,278	42.44	110,278(3)	12,869,534
October 2006	213,994	42.87	213,994(3)	12,887,268
TOTAL	1,582,695	37.42	1,582,695	

- (1) The Annual Shareholders' Meeting of February 8, 2005 authorized the Board of Directors to buy and sell the company's own shares on the market for a period of 18 months in compliance with the objectives and procedures of the stock purchase program approved by the *Autorités des Marchés Financiers* (AMF) under visa n° 05-109 of February 22, 2005. The maximum number of shares that may be purchased by virtue of this authorization may not exceed 10% of the total number of shares constituting the share capital, this number being eventually adjusted to take into account operations modifying the share capital. Under no circumstances may the total number of share the Company holds, either directly or indirectly through its indirect subsidiaries, exceed 10% of the share capital. Under this authorization, 400,000 shares were repurchased from February 13, 2006 to March 23, 2006.
- (2) The Annual Shareholders' Meeting of January 31, 2006 authorized the Board of Directors to buy and sell the company's own shares on the market for a period of 18 months in compliance with the objectives and procedures of the stock purchase program approved. The maximum number of shares that may be purchased by virtue of this authorization may not exceed 10% of the total number of shares constituting the share capital, this number being eventually adjusted to take into account operations modifying the share capital. Under no circumstances may the total number of share the

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Company holds, either directly or indirectly through its indirect subsidiaries, exceed 10% of the share capital. Under this authorization, 605,000 shares have been repurchased from May 12, 2006 to December 31, 2006.

- (3) Pursuant to the authorization given at the Annual Shareholders' Meeting of January 31, 2006, Sodexo Alliance signed a liquidity contract on July 1, 2006 with Oddo Corporate Finance relating to the Company's ordinary shares. In connection with this liquidity contract, 577,695 shares were purchased from July 1, 2006 to December 31, 2006.

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- (4) Based on 10% of the Company's shares capital, and after deducting the shares held by the Company to cover the share purchase option plans for Company employees or through the liquidity contract, as well as after deducting the shares held by the subsidiaries.

PART III**ITEM 17. FINANCIAL STATEMENTS**

Reference is made to pages F-1 through F-77 of this Annual Report.

ITEM 18. FINANCIAL STATEMENTS

We have responded to Item 17 in lieu of responding to this Item.

ITEM 19. EXHIBITS

(a) The following exhibits are filed as part of this Form 20-F

Exhibit Number	Description
1	Sodexho Alliance Restated Corporate <i>Statuts</i> (English translation)(incorporated by reference to Exhibit 1 to the Registration Statement on Form 20-F filed by Sodexho Alliance SA on March 19, 2002, Commission File No. 1-31274)
2.1	Composite Conformed Term and Revolving Facilities Agreement, dated April 6, 2001, for Sodexho Alliance, SA, arranged by Citibank International plc, Goldman Sachs International and SG Investment Banking with Société Generale acting as Agent and Société Générale acting as Issuing Bank (as amended by a letter dated 27 April 2001, an Amendment and Restatement Agreement dated 8 June 2001 and as amended by letters dated March 14, 2003 and May 15, 2003)(incorporated by reference to Exhibit 2.1 to the Registration Statement on Form 20-F filed by Sodexho Alliance SA on December 18, 2003, Commission File No. 1-31274)
2.2	Form of Deposit Agreement among Sodexho Alliance, SA, The Bank of New York as Depositary, and all Owners and Beneficial Owners from time to time of American Depositary Receipts issued thereunder (incorporated by reference to Exhibit A of the Registration Statement on Form F-6 filed by The Bank of New York and the Company on March 21, 2002, Commission File No. 333-84970)
2.3	Terms and Conditions of Offering of Euro 1,000,000,000 5.875 percent Bonds due 2009 (incorporated by reference to Exhibit 2.3 to the Registration Statement on Form 20-F filed by Sodexho Alliance SA on March 19, 2002, Commission File No. 1-31274)
2.4	Agreement by Registrant to Furnish Certain Information to the Securities and Exchange Commission (incorporated by reference to Exhibit 2.4 to the Registration Statement on Form 20-F filed by Sodexho Alliance SA on March 19, 2002, Commission File No. 1-31274)
4.1	Agreement and Plan of Merger, dated as of May 1, 2001, among Sodexho Marriott Services, Inc., Sodexho Alliance, SA and SMS Acquisition Corp. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Sodexho Marriott Services, Inc. on May 4, 2001, Commission File No. 1-12188) (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 20-F filed by Sodexho Alliance SA on March 19, 2002, Commission File No. 1-31274)
4.2	Agreement dated December 30, 1991 between Felix Bellon SA and Sodexho S.A. as amended (English translation) (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form 20-F filed by Sodexho Alliance SA on December 18, 2003, Commission File No. 001- 31274)

Exhibit Number	Description
4.3	Employment contract of Michel Landel
8	List of Significant Subsidiaries (incorporated by reference to note 4.4 of the Consolidated Financial Statements of Sodexo Alliance, SA)
12.1	Certification by Michel Landel, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification by Siân Herbert-Jones, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13	Certifications by Michel Landel, Chief Executive Officer and Siân Herbert-Jones, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15	Consent of PricewaterhouseCoopers Audit

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing this Annual Report on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SODEXHO ALLIANCE, SA

By: /s/ Siân Herbert-Jones

Name: Siân Herbert-Jones
Title: Chief Financial Officer

Dated: January 12, 2007

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Sodexo Alliance, SA

We have completed an integrated audit of Sodexo Alliance, SA's 2006 consolidated financial statements and of its internal control over financial reporting as of August 31, 2006 and an audit of its 2005 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, consolidated statements of the recognized income and expense and consolidated statements of cash flows present fairly, in all material respects, the financial position of Sodexo Alliance, SA and its subsidiaries (together, the "Group") at August 31, 2006 and 2005, and the results of their operations and their cash flows for each of the two years in the period ended August 31, 2006 in conformity with International Financial Reporting Standards, as adopted by the European Union. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards as adopted by the European Union vary in certain respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 8 to the consolidated financial statements. As discussed in note 8.3 (c), the Group adopted FAS 123 (R) Share-based Payments (revised 2004) with effect from September 1, 2005.

As discussed in note 2.1, Basis of preparation of the financial statements, the Group has applied the International Financial Reporting Standards as adopted by the European Union with effect from September 1, 2004, the date of transition in accordance with the transitional provisions set out in IFRS 1 First-time Adoption of International Financial Reporting Standards. Previously, the Group followed the generally accepted accounting principles in France.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 15, that the Group maintained effective internal control over financial reporting as of August 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of August 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Group's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis

for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail; accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance

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with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Neuilly-sur-Seine, France

January 12, 2007

PRICEWATERHOUSECOOPERS AUDIT

Louis-Pierre Schneider

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SODEXHO ALLIANCE SA
CONSOLIDATED INCOME STATEMENTS

(in millions of euro)	Note	Fiscal 2006	Fiscal 2005
Revenues	2.22. and 3.	12,798	11,693
Cost of sales		(10,957)	(10,033)
Gross profit		1,841	1,660
Sales department costs	4.1.	(159)	(141)
General and administrative costs	4.1.	(1,104)	(1,002)
Other operating income	4.1.	42	7
Other operating expense	4.1.	(15)	(74)
Operating profit	3.	605	450
Financial income	4.2	54	60
Financial expense	4.2	(162)	(172)
Share of profit of associates	3.	8	(6)
Profit for the period before tax		505	332
Income tax expense	4.3.	(172)	(111)
Result from discontinued operations		□	□
Profit for the period		333	221
Profit attributable to minority interests		10	9
Profit attributable to equity holders of the parent		323	212
Basic earnings per share (in euro)	2.23. and 4.4.	2.07	1.36
Diluted earnings per share (in euro)	2.23. and 4.4.	2.05	1.36

See accompanying notes to the consolidated financial statements.

SODEXHO ALLIANCE SA
CONSOLIDATED BALANCE SHEETS

ASSETS (in millions of euro)	Note	August 31, 2006	August 31, 2005
Non-current assets			
Property, plant and equipment	2.6. 2.7. 2.8. and 4.5.	430	406
Goodwill	2.4. 2.8. and 4.6.	3,623	3,705
Other intangible assets	2.5. 2.8. and 4.7.	126	87
Client investments	2.9. and 4.8.	146	138
Associates	2.3.2. and 4.9.	36	32
Financial assets	2.12. and 4.11.	75	74
Other non-current assets	4.13.	18	18
Deferred tax assets	2.20. and 4.21.	242	225
Total non-current assets		4,696	4,685
Current assets			
Financial assets	2.12. and 4.11.	17	7
Derivative financial instruments	2.12. and 4.17.	42	40
Inventories	2.10. and 4.12.	168	176
Income tax		17	19
Trade and other receivables	4.13.	1,909	1,750
Restricted cash and financial assets related to the Service			
Vouchers and Cards activity	2.12. and 4.11.	423	326
Cash and cash equivalents	2.13. and 4.14.	1,042	949
Total current assets		3,618	3,267
Total assets		8,314	7,952

See accompanying notes to the consolidated financial statements.

**SODEXHO ALLIANCE SA
CONSOLIDATED BALANCE SHEETS, CONT.**

LIABILITIES AND EQUITY (in millions of euro)	Notes	August 31, 2006	August 31, 2005
Shareholders' equity			
Common stock		636	636
Additional paid in capital		1,186	1,186
Retained earnings		668	708
Consolidated reserves		(334)	(470)
Equity attributable to equity holders of the parent		2,156	2,060
Equity attributable to minority interests		17	18
Total shareholders' equity	2.15., 2.19. and 4.15.	2,173	2,078
Non-current liabilities			
Borrowings	2.12., 2.14. and 4.16.	1,852	1,891
Employee benefits	2.17. and 4.18.	349	309
Other liabilities	4.20	101	80
Provisions	2.16. and 4.19.	68	53
Deferred tax liabilities	2.20. and 4.21.	49	54
Total non-current liabilities		2,419	2,387
Current liabilities			
Bank overdrafts		36	21
Borrowings	2.12., 2.14. and 4.16.	68	85
Derivative financial instruments	2.12. and 4.17.	2	2
Income tax		80	84
Provisions	2.16. and 4.19.	40	97
Trade and other payables	4.20	2,369	2,197
Vouchers payable	2.18	1,127	1,001
Total current liabilities		3,722	3,487
Total liabilities and equity		8,314	7,952

See accompanying notes to the consolidated financial statements.

SODEXHO ALLIANCE SA
CONSOLIDATED STATEMENTS OF CASH FLOW

(in millions of euro)	Note	Fiscal 2006	Fiscal 2005
Operating activities			
Operating profit		605	450
Elimination of non-cash and non-operating items			
Depreciation and amortization		164	168
Provisions		(34)	62
Losses/(gains) on disposal and other, net of tax		(21)	5
Dividends received from associates		1	0
Change in working capital from operating activities		40	231
change in inventories		2	(14)
change in accounts receivable		(189)	(59)
change in trade and other payables		203	162
change in vouchers payable		131	123
change in financial assets related to the Service Vouchers and Cards activity		(107)	19
Interest paid		(114)	(122)
Interest received		18	19
Income tax paid		(171)	(136)
Net cash provided by operating activities		488	677
Investing activities			
Acquisitions of property, plant & equipment and intangible assets		(192)	(143)
Disposals of property, plant & equipment and intangible assets		17	16
Change in client investments		(15)	(19)
Change in financial assets		(15)	5
Effect of acquisitions of subsidiaries		(30)	(3)
Effect of disposals of subsidiaries		25	(3)
Net cash used in investing activities		(210)	(147)
Financing activities			
Dividends paid to parent company shareholders		(117)	(109)
Dividends paid to minority shareholders of consolidated companies		(10)	(8)
Change in shareholders' equity		(4)	(13)
Proceeds from borrowings		23	464
Repayment of borrowings		(71)	(718)
Net cash used in financing activities		(179)	(384)
CHANGE IN NET CASH AND CASH EQUIVALENTS		99	146
Net effect of exchange rates on cash		(21)	23

Explanation of Responses:

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Net cash and cash equivalents at beginning of period		928	759
		<u> </u>	<u> </u>
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	4.14.	1,006	928
		<u> </u>	<u> </u>

See accompanying notes to the consolidated financial statements.

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SODEXHO ALLIANCE SA
CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE

(in millions of euro)	Fiscal 2006	Fiscal 2005
Financial instruments	(6)	8
Change in cumulative translation adjustment	(92)	10
Actuarial gain/(loss) on employee benefits	(30)	7
Profit/(loss) recognized directly in equity	(128)	25
Profit for the period	333	221
Total recognized profit/(loss) for the period	205	246
Attributable to:		
Equity holders of the parent	196	237
Minority interests	9	9

See accompanying notes to the consolidated financial statements.

SODEXHO ALLIANCE, SA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Sodexho Alliance is a *société anonyme* (a form of limited liability company) domiciled in France and its headquarters are located in Montigny-Le-Bretonneux.

The consolidated financial statements of the Group were approved by the Board of Directors on November 14, 2006.

1. Highlights

On February 13, 2006, the Group acquired an interest in the Paris Lido cabaret, in connection with its strategy of expanding its tourism and leisure activities.

On June 14, 2006, the Group acquired a group of companies in Argentina, notably including Ticket Total Argentina, the country's third largest issuer of service vouchers, and Ticket Total Uruguay. This acquisition extends the footprint of the Group's Service Vouchers and Cards activity in Argentina and Latin America.

On August 21, 2006, the Group sold Spirit Cruises, its U.S. river cruise subsidiary. The sale generated a gain of €21 million.

Payments made during fiscal 2006 in connection with the resolution of the U.S. litigation, which had been fully provided in the financial statements for fiscal 2005, reduced cash flow by €58 million.

2. Accounting policies

2.1. Basis of preparation of the financial statements

Amounts in tables are expressed in millions of euro.

2.1.1. General principles

The financial statements of consolidated subsidiaries are prepared in accordance with accounting principles as defined by the Group under International Financial Reporting Standards (IAS/IFRS) as adopted by the European Union as of August 31, 2006 (IFRS). The majority of fully consolidated companies close their financial statements as of August 31, with a half-year closing on February 28. For those companies having different closing dates, financial statements as of August 31 and February 28 are prepared to report transactions for the period from September 1.

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

2.1.2. Standards and interpretations applied

In application of European Union rule 1606/2002 of July 19, 2002, the Group's consolidated financial statements effective September 1, 2005 have been prepared for the first time in accordance with IFRS.

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The Group has prepared its consolidated financial statements as of and for the year ended August 31, 2006 in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

Note 6 summarizes the main impacts of transition to the IFRS.

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Fiscal 2005 financial statements were prepared using IFRS as the primary basis of accounting, with the same standards and interpretations as those used for fiscal 2006.

However, the Group elected to early adopt as of August 31, 2005 the revised IAS 19, which allows for actuarial gains and losses to be recorded directly in shareholders' equity

2.1.3. Standards and interpretations not early adopted

The Group has elected not to early adopt the following standards and interpretations, which have been adopted by the European Union but are applicable in periods commencing between January 1, 2006 and January 1, 2007.

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

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

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

2.2. Use of estimates

The preparation of financial statements in accordance with IFRS requires management of the Group and its subsidiaries to make estimates and assumptions which affect the amounts reported for assets, liabilities and contingent liabilities as of the date of preparation of the financial statements, and of revenues and expenses for the period. These estimates and assumptions are reassessed continuously based on past experience and on various other factors considered reasonable in view of current circumstances, which constitute the basis for assessments of the carrying amount of assets and liabilities. Actual results may differ substantially from these estimates if assumptions or circumstances change. Significant items subject to such estimates and assumptions include provisions for litigation (notes 4.19. and 4.28.), post-employment benefit plan assets and liabilities (note 4.18.), impairment of assets (note 4.10.), and deferred taxes (note 4.21.).

2.3. Principles and methods of consolidation

2.3.1. Intragroup transactions

Intragroup transactions and balances, and unrealized losses and gains between Group companies, are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, unless they represent an impairment loss.

2.3.2. Consolidation methods

A subsidiary is an entity directly or indirectly controlled by Sodexho Alliance. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing whether control exists, potential voting rights that are currently exercisable or convertible are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained to the date on which control ceases to be exercised.

Companies in which Sodexho Alliance directly or indirectly exercises significant influence over financial and operating policy without exercising control are consolidated by the equity method from the date on which significant influence is first exercised to the date on which it ceases to be exercised. Significant influence is deemed to exist where the Group holds between 20% and 50% of the voting rights.

The Group owns a number of equity interests in project companies established in connection with Public-Private Partnership (PPP) and Private Finance Initiative (PFI) contracts. These contracts enable governments to call upon the private sector for the design, construction, financing and management of public infrastructure (hospitals, schools, barracks, prisons), with detailed performance criteria.

The Group only makes equity and subordinated debt investments in such projects when it acts as a service provider to the project company. Further information on these investments as of August 31, 2006 is provided in note 4.9.

Each project company is assessed to determine whether Sodexho Alliance exercises control or significant influence based on the criteria of IAS 27, IAS 28 and SIC 12.

2.3.3. Foreign currency translation

The exchange rates used are derived from rates quoted on the Paris Bourse and other major international financial markets.

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated using the closing rate. The resulting translation differences are reported in financial income or expense.

Non-monetary foreign-currency assets and liabilities reported at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities reported at fair value are translated using the exchange rate at the date when the fair value was determined.

Transactions for the period are translated at the exchange rate at the transaction date.

Translation differences on monetary items that are in substance part of a net investment in a foreign operation consolidated by the Group are reported in consolidated shareholders' equity until the disposal or liquidation of the investment.

Financial statements denominated in foreign currencies

Countries with stable currencies

The separate financial statements of each consolidated entity are presented on the basis of the primary economic environment in which the entity operates.

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For consolidation purposes, all foreign-currency assets and liabilities of consolidated entities are translated into the reporting currency of the Group (the euro) at the closing exchange rate, and all income statement items are translated at the average exchange rate for the period. The resulting translation differences are recognized in shareholders' equity in the cumulative translation adjustment.

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Statutory monetary adjustments are maintained in the financial statements of subsidiaries in countries that were previously hyperinflationary (Argentina, Chile, Colombia, Mexico, Turkey and Venezuela). The residual translation differences between the monetary adjustment and the use of closing exchange rates are reported in shareholders' equity.

Countries with hyperinflationary economies

For these countries, the difference between profit or loss for the period translated at the average rate and profit or loss for the period translated at the closing rate is reported in financial income or expense.

As of August 31, 2006, no country in which the Group is operating met the criteria for having a hyperinflationary economy.

2.3.4. Transactions with minority interests

The Group has a policy of conducting transactions with minority interests in the same way as transactions with third parties. Any gain or loss arising on disposals to minority interests is recognized in the income statement. Goodwill is recognized on acquisitions of shares from minority interests.

2.4. Business combinations

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

On first-time consolidation of a subsidiary or equity interest, the Group measures all identifiable items acquired in the currency of the acquired entity. In accordance with IFRS 3, changes to measurement of identifiable assets and liabilities may occur (as a result of specialist valuations or a complementary analysis) within 12 months of the date of acquisition. Once this 12-month period has elapsed, the effect of any adjustments is recognized directly in the income statement unless it involves the correction of an error.

If future benefits of tax losses or other deferred tax assets of an acquired company were not recorded at the time of an acquisition because they did not meet the required accounting criteria, but subsequently do meet the accounting criteria when realized, the goodwill value is reduced by the amount that would have been recorded if the tax asset has been recognized at the time of the acquisition.

Goodwill arising on the acquisition of associates is included in the value of the investment in the associate.

2.4.1. Goodwill

Any excess of the cost of an acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the acquisition date is recognized as goodwill in the balance sheet.

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

2.4.2. Negative goodwill

Any excess of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the acquisition date over the cost of the acquisition is treated as negative goodwill, and is taken to the income statement immediately in the period of acquisition.

2.5. Intangible assets

Separately acquired intangible assets are initially measured at acquisition cost in accordance with IAS 38. Intangible assets acquired in a business combination that (i) can be reliably measured, (ii) are controlled by the

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Group and (iii) are separable or arise from a legal or contractual right are recognized at fair value separately from goodwill. Subsequent to initial recognition, intangible assets are measured at acquisition cost less accumulated amortization and impairment losses.

Intangible assets other than brands are regarded as assets with finite useful lives, and are amortized by the straight line method over their expected useful lives:

<input type="checkbox"/> Integrated management software	5 years
<input type="checkbox"/> Other software	3-4 years
<input type="checkbox"/> Patents and licenses	2-10 years
<input type="checkbox"/> Other intangible assets	3-5 years

The cost of licenses and software recognized in the balance sheet comprises the costs incurred in acquiring the software and bringing it into use, and is amortized over the estimated useful life of the asset.

Subsequent expenditures on intangible assets are capitalized only if they increase the expected future economic benefits associated with the asset to which they relate. Other expenditures are expensed as incurred.

2.6. Property, plant and equipment

In accordance with IAS 16, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, except for land which is measured at cost less accumulated impairment losses. Cost includes expenditures directly incurred to acquire the asset, and in some cases may also include estimated unavoidable future dismantling, removal and site remediation costs.

Subsequent expenditures are included in the carrying amount of the asset, or recognized as a separate component, if it is probable that the future economic benefits of the expenditures will flow to the Group and the cost can be measured reliably. All other repair and maintenance costs are recognized as expenses during the period in which they are incurred, except costs incurred to improve productivity or extend the useful life of an asset, which are capitalized.

Items of property, plant and equipment are depreciated over their expected useful lives using the component-based approach. The straight line method of depreciation is regarded as the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in items of property, plant and equipment.

The useful lives generally used by the Group are:

<input type="checkbox"/> Buildings	20-30 years
<input type="checkbox"/> Fixtures and fittings	3-10 years
<input type="checkbox"/> Plant and equipment	3-8 years
<input type="checkbox"/> Motor vehicles	4 years
<input type="checkbox"/> Boats and pontoons (depending on the component)	5-15 years

The carrying amounts of items of property, plant and equipment are tested for impairment if there is an indication that an item has become impaired.

2.7. Leases

Leases contracted by the Group as lessee are accounted for in accordance with IAS 17, [Leases].

Capital leases, under which substantially all the risks and rewards incidental to ownership of an asset are transferred to the Group, are accounted for as follows:

- At the commencement of the lease term, the leased asset is recognized as an asset at the lower of fair value or the present value of the minimum lease payments.
- The corresponding liability is recognized under "Borrowings".
- Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

An asset held under a capital lease is depreciated over its estimated useful life, or if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, over the shorter of the lease term and its useful life.

Leases under which the lessor retains substantially all the risks and rewards incidental to ownership of the asset are treated as operating leases. Payments made under operating leases are expensed as an operating item on a straight line basis over the term of the lease.

2.8. Impairment of assets

2.8.1. Impairment of assets with finite useful lives

Property, plant and equipment and intangible assets with finite useful lives are tested for impairment if there is objective indication of impairment. Impairment losses are recognized in the income statement, and may be reversed subsequently.

2.8.2. Impairment of assets with indefinite useful lives

Goodwill has an indefinite useful life. It is tested for impairment whenever there is an indication that it may have become impaired, and at least annually, in the last quarter of the fiscal year. The results of the impairment tests conducted are reassessed using data as of August 31.

Cash Generating Units

Assets that do not generate cash inflows that are largely independent of those from other assets, and hence cannot be tested for impairment individually, are grouped together in Cash Generating Units (CGUs).

Impairment tests are conducted for each CGU, which is generally the country level of an activity. The assets allocated to each CGU comprise goodwill, non-current assets, and net working capital.

Indications of impairment

The main indicators that a CGU may be impaired are a significant decrease in revenues and gross margin or material changes in market trends.

Method used to determine the recoverable amount

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

Recoverable amount is the greater of:

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

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The value in use of CGUs is estimated using after-tax cash flow projections generally based on three-year business plans prepared by management and extrapolated into future years.

Management both at Group and subsidiary levels prepare gross profit forecasts on the basis of past performance and expected market trends. The growth rate used beyond the initial period of the business plan reflects the growth rate for the business sector and region involved. Expected future cash flows are discounted at the average cost of capital of the CGU. The growth and discounting rates used for impairment tests during the period are provided in note 4.10.

Recognition of impairment losses

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

2.8.3. Reversal of impairment losses

Impairment losses recognized with respect to goodwill cannot be reversed.

Impairment losses recognized with respect to any other asset may be reversed if there is a change in the estimates used to determine its recoverable amount.

The increased carrying amount of an asset resulting from the reversal of an impairment loss cannot exceed the carrying amount that would have been determined for that asset had no impairment loss been recognized.

2.9. Client investments

In some contracts, the Group makes a financial contribution to the purchase of equipment or fixtures on the client site, that are necessary to fulfill service obligations. These assets are amortized over the period of the service obligation.

In the cash flow statement, the changes in the value of these investments are a component of investing cash flows.

2.10. Inventories

Inventories are measured at the lower of cost or net realizable value. Cost is determined by the FIFO (First In First Out) method.

2.11. Trade and other receivables

Trade and other receivables are initially recognized at fair value, and are subsequently measured at amortized cost less impairment losses recognized in the income statement. Where the full amount due under the initial terms of the contract is not recoverable an impairment loss is recognized.

2.12. Financial instruments

Financial assets and liabilities are recognized and measured in accordance with IAS 39; [Financial Instruments: Recognition and Measurement].

Financial assets and liabilities are recognized in the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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The fair values of financial assets and financial instruments are determined on the basis of quoted market prices or of valuations carried out by the depositary bank.

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2.12.1. Financial assets

Under IAS 39, financial assets are measured and recognized based in three main categories:

- **Loans and receivables** include deposits, security deposits, and loans to non-consolidated equity investees. These financial assets are shown in the balance sheet at amortized cost, which is equivalent to acquisition cost as no significant transaction costs are incurred in acquiring such assets. They are tested for impairment if there is an indication that they may be impaired, and an impairment loss is recognized if the carrying amount of the asset is greater than its estimated recoverable amount.
- **Financial assets at fair value through profit or loss** include other financial assets held for trading and acquired for the purpose of resale in the near term. Subsequent changes in the fair value of these assets are recognized in financial income or expense in the income statement. An impairment loss is recognized if the recoverable amount of a financial asset at fair value through profit or loss is less than its carrying amount. Such impairment losses may be reversed if the increase in the recoverable amount can be related objectively to an event occurring after the impairment was recognized.
- **Financial assets available for sale** include equity investments in non-consolidated entities, marketable securities with maturities greater than three months, and restricted cash. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, with changes in fair value recognized separately in shareholders' equity. When an available-for-sale financial asset is sold or impaired, the cumulative fair value adjustment previously recognized in equity is transferred to the income statement.

2.12.2. Derivative instruments

The Group's policy is to finance acquisitions in the currency of the acquired entity, generally at fixed rates of interest.

The majority of the Group's variable-rate borrowings are converted to fixed-rate using interest rate swaps. In most cases where borrowings are made in a currency other than that of the acquired entity, currency swaps are contracted. As required by IAS 39, these derivative financial instruments are initially recognized in the balance sheet at fair value, as current financial assets or liabilities.

Subsequent changes in the fair value of derivative instruments are recognized in the income statement, except in the case of instruments that qualify as cash flow hedges.

In the case of cash flow hedges, the necessary documentation is prepared at inception and updated at each balance sheet date. Gains or losses arising on the effective portion of the hedge are recognized in equity, and are not recognized in the income statement until the underlying asset or liability is realized.

Gains or losses arising on the ineffective portion of the hedge are recognized immediately in the income statement.

The Group relies on external specialists to determine the fair value of these instruments.

2.12.3. Commitments to purchase minority interests

As required by IAS 32, the Group recognizes commitments to buy out minority interests as a liability within borrowings in the consolidated balance sheet. In the absence of any IASB standard or interpretation regarding the treatment of the matching debit entry, the Group has elected to offset the amount involved against the relevant minority interests in shareholders' equity until they are eliminated in full, and to treat any surplus as goodwill.

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Firm commitments to buy out minority interests are therefore accounted for as follows under IFRS:

- the liability arising from the commitment is recognized at the buyout value;
- the expected goodwill is recognized in the balance sheet;

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- the minority interest in profit for the period is reclassified as attributable to the equity holders of the parent.

Subsequent price adjustments are recognized as adjustments to the amount of goodwill.

This accounting policy may be revised in connection with the conclusions of the IASB.

2.12.4. Bank borrowings and bond issues

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

2.13. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, and short-term cash investments in money-market instruments which either have an initial maturity of less than three months or may be withdrawn at any time with no significant risk of loss in value.

2.14. Borrowing costs

Borrowing costs are treated as follows:

- Borrowing costs directly attributable to the acquisition, construction or production of a non-current asset are capitalized as part of the cost of the underlying asset, as permitted by IAS 23.
- Borrowing costs not directly attributable to a non-current asset are netted off the related borrowing in the balance sheet and recognized in the income statement over the term of the borrowing, in accordance with IAS 39.

2.15. Sodexo Alliance treasury shares

Sodexo Alliance shares held by the company itself and/or by other Group companies are shown as a reduction in consolidated shareholders' equity at acquisition cost.

Gains and losses on acquisitions and disposals of treasury shares are recognized directly in consolidated shareholders' equity and do not affect profit or loss for the period.

2.16. Provisions

A provision is recorded if (i) an entity has a legal or constructive obligation at the balance sheet date, (ii) it is probable that settlement of the obligation will require an outflow of resources, and (iii) the amount of the liability can be reliably measured.

Provisions primarily cover commercial, employee-related and tax-related risks and litigation arising in the course of operating activities, and are measured in accordance with IAS 37 using assumptions that take account of the most likely outcomes.

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

Loss-making contracts

Explanation of Responses:

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

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2.17. Employee benefits

2.17.1. Short-term benefits

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

These benefits are reported as current liabilities.

2.17.2. Post-employment benefits

The Group measures and recognizes post-employment benefits in accordance with IAS 19:

- contributions to defined contribution plans are recognized as an expense;
- defined benefit plans are measured using actuarial valuations.

The Group uses the projected unit credit method as the actuarial method for measuring its post-employment benefit obligations, on the basis of the national or company-wide collective agreements effective within each entity.

Factors used in calculating the obligation include length of service, life expectancy, salary inflation, staff turnover, and macro-economic assumptions specific to countries in which the Group operates (such as inflation rate, rate of return on plan assets and discount rate).

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

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

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

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

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

- The expense recognized in the income statement comprises:
 - ◆ current service cost, amortization of past service cost, and the effect of any plan curtailments or settlements, all of which are recorded as operating items;

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

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

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2.17.3. Other long-term employee benefits

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

2.18. Vouchers payable

Vouchers payable are recognized at fair value, which is the face value of vouchers in circulation or returned to the Group but not yet reimbursed to affiliates.

2.19. Share-based payment

Some Group employees receive compensation in the form of share-based payment.

In accordance with the transitional provisions of IFRS 1, only plans with a grant date after November 7, 2002 and not vested as of January 1, 2005 are measured and recognized as employee costs.

The services compensated by these plans are recognized as an expense, with the matching credit entry taken to shareholders' equity over the vesting period. The amount of expense recognized in each period is determined by reference to the fair value of the options granted as of the grant date, computed using the binomial model.

At each balance sheet date, the Group reassesses the number of options liable to become exercisable. The impact of any change in estimates is recognized in the income statement, with the matching entry taken to shareholders' equity.

2.20. Deferred taxes

Deferred taxes are recognized on differences between the carrying amount of an asset or liability and its tax base, using the tax rate that is expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that are enacted or substantively enacted at the balance sheet date.

Deferred taxes are not recognized on the following items:

- goodwill that is not deductible for tax purposes;
- initial recognition of an asset in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit; and
- temporary differences on investments in subsidiaries that are not expected to reverse in the foreseeable future.

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

Residual deferred tax assets on tax loss carry-forwards (after offset of deferred tax liabilities) are only recognized if their recovery is considered probable.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets and liabilities and the deferred taxes relate to the same taxable entity and tax authority.

2.21. Trade and other payables

Explanation of Responses:

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

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2.22. Income statement

2.22.1. Income statement by function

As permitted by IAS 1, Presentation of Financial Statements, the Group presents its income statement by function.

Operating profit comprises the following components:

- gross profit
- sales department costs
- general and administrative costs
- other operating income and charges

2.22.2. Revenues

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

- Food and Facilities Management Services revenues include all revenues stipulated in the contract, with consideration given to whether the Group acts as principal (the vast majority of cases) or agent;
- Service Vouchers and Cards revenues comprise commission received from clients and affiliates, financial income from the investment of surplus cash generated by the activity, and profits from vouchers and cards not reimbursed.

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

Food service revenues are recognized when the service is rendered.

2.23. Earnings per share

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

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

2.24. Statement of cash flows

The Group presents its statement of cash flows in accordance with IAS 7.

The statement of cash flows analyzes changes in net cash and cash equivalents, which is defined as cash and cash equivalents less current bank overdrafts and credit bank balances payable on demand as part of the Group's

treasury management strategy.

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3. Segment information

As of August 31, 2006, the Group had two principal activities worldwide: Food and Facilities Management Services, and Service Vouchers and Cards. Food and Facilities Management Services is further segmented by geographic region:

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

These entities constitute the Group's primary reporting segments.

The majority of the Group's other activities are included in Food and Facilities Management Services. These mainly comprise kitchen installation services, some event-driven activities, and the Remote Sites activity (which is included in the Rest of the World segment of the Food and Facilities Management Services activity). None of these activities individually represents a reportable segment.

3.1. By business segment

3.1.1. Income statement information

<i>Fiscal 2006</i>	Food and Facilities Management Services (FFMS)				Total			
	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	Food and facilities management	Service Vouchers and Cards	Holding Companies	Elimination
Revenues (third-party)	5,479	4,148	1,370	1,434	12,431	367	0	
Inter-segment sales	0	0	0	0	0	6	0	
Total	5,479	4,148	1,370	1,434	12,431	373	0	
Segment operating profit	277	203	42	28	550	113	(58)	
Share of profit of associates	1	0	5	2	8	0	0	
Net financing costs								
Income tax expense								
Minority interest								
Profit attributable to equity holders of the parent								
Depreciation/amortization of segment assets	46	66	20	17	149	10	5	
Other non-cash items	4	3	0	1	8	0	2	
Impairment losses recognized	0	1	0	4	5	0	0	
Impairment losses reversed	0	0	0	0	0	0	0	

<i>Fiscal 2005</i>	Food and Facilities Management Services (FFMS)	Total
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	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	Food and facilities management	Service Vouchers and Cards	Holding Companies	Eliminations	Total
Revenues (third-party)	5,004	3,922	1,302	1,166	11,394	299	0	0	11,6
Inter-segment sales	0	0	0	0	0	6	0	(6)	
Total	5,004	3,922	1,302	1,166	11,394	305	0	(6)	11,6
Segment operating profit	160	199	16	35	410	78	(38)	0	4
Share of profit of associates	1	0	(8)	1	(6)	0	0	0	
Net financing costs									(1
Income tax expense									(1

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<i>Fiscal 2005</i>	Food and Facilities Management Services (FFMS)				Total				
	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	Food and facilities management	Service Vouchers and Cards	Holding Companies	Eliminations	Total
Minority interest									
Profit attributable to equity holders of the parent									2
Depreciation/amortization of segment assets	51	65	22	14	152	10	5	0	1
Other non-cash items	4	3	0	1	8	0	2	0	
Impairment losses recognized	0	2	0	0	2	2	0	0	
Impairment losses reversed	0	1	0	0	1	0	0	0	

3.1.2. Balance sheet information

<i>As of August 31, 2006</i>	Food and Facilities Management Services (FFMS)				Total				
	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	Food and facilities management	Service Vouchers and Cards	Holding Companies	Eliminations	Total
Segment assets	3,142	1,885	1,116	560	6,703	852	104	(197)	
Associates	8	0	5	23	36	0	0	0	
Financial assets (incl. derivatives)									
Income tax assets									
Total assets									
Segment liabilities	899	1,130	481	362	2,872	1,231	184	(197)	
Financial liabilities									
Income tax liabilities									
Shareholders' equity									
Total liabilities and equity									
Capital expenditures during the period	68	67	38	21	194	13	1	(1)	

<i>As of August 31, 2005</i>	Food and Facilities Management Services (FFMS)				Total				
	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	Food and facilities management	Service Vouchers and Cards	Holding Companies	Eliminations	Total

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	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	Food and facilities management	Service Vouchers and Cards	Holding Companies		
Segment assets	3,166	1,820	1,003	495	6,484	801	110	(166)	7
Associates	8	0	1	23	32	0	0	0	
Financial assets (incl. derivatives)									
Income tax assets									
Total assets									7
Segment liabilities	949	1,154	375	302	2,780	1,082	62	(166)	3
Financial liabilities									1
Income tax liabilities									
Shareholders' equity									2
Total liabilities and equity									7
Capital expenditures during the period	59	59	16	16	150	8	4	0	

3.2. By geographic segment

Geographic segment information is reported for each of the principal geographic regions in which the Group operates, and includes all activities within that geographic region.

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<i>Fiscal 2006</i>	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	Holding Companies	Eliminations	Total
Revenue (third-party)	5,479	4,330	1,378	1,617	0	(6)	12,798
Segment assets	3,142	2,274	1,141	998	104	(197)	7,462
Capital expenditures during the period	68	73	39	27	1	(1)	207

<i>Fiscal 2005</i>	North America	Continental Europe	United Kingdom and Ireland	Rest of the world	Holding Companies	Eliminations	Total
Revenue (third-party)	5,004	4,087	1,308	1,300	0	(6)	11,693
Segment assets	3,166	2,213	1,032	874	110	(166)	7,229
Capital expenditures during the period	59	63	16	20	4	0	162

4. Information on the financial statements as of August 31, 2006

4.1. Operating expenses by nature

<i>(in millions of euro)</i>	Fiscal 2006	Fiscal 2005
Depreciation, amortization and impairment losses	(188)	(171)
Employee costs		
- Wages and salaries	(4,656)	(4,207)
- Other employee costs(1)	(1,385)	(1,330)
Purchases of consumables and change in inventory	(4,165)	(3,833)
Other operating expenses(2)	(1,799)	(1,702)
Total	(12,193)	(11,243)

(1) Primarily payroll-related costs, but also including costs associated with defined-benefit employment plans (Note 4.18) and stock options (Note 4.23).

(2) Other operating expenses mainly include professional fees, other purchases, operating lease expenses of €232 million, other subcontracting costs, and other travel expenses

Operating expenses by function	Fiscal 2006	Fiscal 2005
Cost of sales	(10,957)	(10,033)
Sales department costs	(159)	(141)
General and administrative costs	(1,104)	(1,002)
Other operating income and charges	27	(67)

Total	(12,193)	(11,243)
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4.2. Financial income and expense

Financial income

<i>(in millions of euro)</i>	Fiscal 2006	Fiscal 2005
Interest expense, net of interest income	(95)	(104)
Net foreign exchange (losses)/gains	(2)	1
Net impairment (losses)/reversals	(1)	0
Expected return on defined-benefit post-employment plan assets	26	23
Interest cost on defined-benefit post-employment plan assets	(27)	(27)
Change in fair value of derivative instruments	(4)	2
Other	(5)	(7)
Net financial income and expense	(108)	(112)

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Net financial income and expense was $\square 4$ million lower than in fiscal 2005, for the following principal reasons:

- a reduction of $\square 9$ million due to the lower level of borrowings;
- a reduction of $\square 3$ million due to a higher return on post-employment benefit plan assets;
- an increase of $\square 3$ million due to currency translation differences;
- an increase of $\square 6$ million due to the fair value remeasurement of financial instruments.

4.3. Income Tax expense

Effective income tax rate reconciliation

(in millions of euros)	Fiscal 2006	Fiscal 2005
Profit for the period before tax	505	332
Share of profit of associates	8	(6)
Accounting profit before tax	497	338
Tax rate applicable to Sodexho Alliance	34.43%	34.93%
Theoretical income tax expense	(171)	(118)
Effect of differential in tax rates applied to income from foreign countries	5	8
Permanently non-deductible expenses or non-taxable income	0	2
Other tax repayments/(charges), net	(7)	(8)
Tax loss carry-forwards used or recognized during the period but not recognized as a deferred tax asset in prior periods	6	7
Tax loss carry-forwards arising during the period but not recognized as a deferred tax asset	(6)	(1)
Taxes recognized directly in equity	2	0
Actual income tax expense	(171)	(110)
Withholding taxes	(1)	(1)
Total income tax expense	(172)	(111)
	Fiscal 2006	Fiscal 2005
Current income tax payable	(157)	(112)
Adjustments to current income tax payable in respect of prior periods	(1)	(1)
Provision for tax exposures	(2)	(1)
Tax credits, tax losses and temporary difference carry-forwards utilized	(15)	(38)
Sub-total: current income taxes	(175)	(152)
Deferred taxes on temporary differences arising or reversing during the period	6	42
Deferred taxes on changes in tax rates or liability to taxes at new rates	0	0
Tax credits, tax losses and temporary difference carry-forwards utilized	(2)	0
Sub-total: deferred taxes (1)	4	42
Actual income tax expense for the period	(171)	(110)

(1) Movements relating to temporary differences were primarily due to the reversal of the provision and the cash payments made in connection with the U.S. litigation (see notes 4.19 and 4.28).

Deferred tax assets generated by companies reporting a tax loss in current or prior periods amounted to ₹1 million.

An accrual of ₹4 million has been recorded in the consolidated financial statements to cover withholding taxes on dividends receivable.

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4.4. Earnings per share

The number of ordinary shares outstanding used in calculating basic and diluted earnings per share is shown below:

	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
Basic weighted average number of shares	156,050,771	155,869,510
Average dilutive effect of stock options (1)	1,432,620	333,165
Diluted weighted average number of shares	157,483,391	156,202,675

- (1) The impact of dilution has increased by approximately 1 million ordinary shares relative to fiscal 2005 solely as a result of the rise in the quoted market price of Sodexho Alliance shares. One of the stock option plans did not have a dilutive impact in fiscal 2006, but may in the future depending upon the change in the Sodexho Alliance share price.

The tables below show the calculation of basic and diluted earnings per share:

	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
Profit for the period attributable to equity holders of the parent	323	212
Basic weighted average number of shares	156,050,771	155,869,510
Basic earnings per share	2.07	1.36
Profit for the period attributable to equity holders of the parent	323	212
Effect of dilutive instruments on profit for the period attributable to equity holders of the parent	0	0
Adjusted net profit of the period attributable to equity holders of the parent	323	212
Diluted weighted average number of shares	157,483,391	156,202,675
Diluted earnings per share	2.05	1.36

4.5. Property, plant and equipment**4.5.1. Analysis of property, plant and equipment**

The tables below show movements in consolidated property, plant and equipment by type of asset for fiscal 2006 and fiscal 2005, and include assets held under capital leases.

	<u>Land</u>	<u>Buildings</u>	<u>Fixtures and fittings</u>	<u>Plant and equipment</u>	<u>Vehicle</u>	<u>Office and computer equipment</u>	<u>Construction in progress and other</u>	<u>TOTAL</u>
	(in millions of euro)							
Cost - September 1, 2005	7	146	155	415	63	208	116	1,110
Accumulated depreciation/impairment - September 1, 2005	0	(77)	(98)	(281)	(38)	(154)	(56)	(704)
Carrying amount - September 1, 2005	7	69	57	134	25	54	60	406
Increases during the period	0	6	18	76	10	34	40	184

Explanation of Responses:

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Decreases during the period	0	(1)	(2)	(6)	(2)	(1)	(5)	(17)
Assets classified as held for sale	1	0	0	0	0	0	0	1
Newly consolidated companies	0	0	5	0	0	0	0	5
Newly deconsolidated companies	0	0	(3)	0	(7)	(1)	0	(11)
Depreciation expense	0	(8)	(19)	(54)	(7)	(29)	(14)	(131)
Impairment losses recognised in profit or loss	0	0	(1)	(2)	0	0	0	(3)

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	Land	Buildings	Fixtures and fittings	Plant and equipment	Vehicles	Office and computer equipment	Construction in progress and other	TOTAL
(in millions of euro)								
Impairment losses reversed in profit or loss	0	0	0	0	0	0	0	0
Translation adjustment	0	0	0	(2)	0	(1)	(1)	(4)
Other	(1)	2	8	5	(1)	2	(15)	0
Carrying amount - August 31, 2006	7	68	63	151	18	58	65	430

	Land	Buildings	Fixtures and fittings	Plant and equipment	Vehicles	Office and computer equipment	Construction in progress and other	TO
(in millions of euro)								
Cost - September 1, 2004	7	143	155	387	75	198	112	1
Accumulated depreciation/impairment - September 1, 2004	(1)	(67)	(94)	(253)	(53)	(141)	(57)	
Carrying amount - September 1, 2004	6	76	61	134	22	57	55	
Increases during the period		4	12	49	11	30	31	
Decreases during the period		(3)	(2)	(6)	(3)	(3)		
Assets classified as held for sale								
Newly consolidated companies								
Newly deconsolidated companies								
Depreciation expense		(10)	(18)	(53)	(7)	(30)	(13)	
Impairment losses recognised in profit or loss								
Impairment losses reversed in profit or loss	1							
Translation adjustment				2				1

Explanation of Responses:

Other	2	4	8	2		(14)
Carrying amount □						
August 31, 2005	7	69	57	134	25	54
						60

Expenditures of ₹25 million were capitalized as construction in progress during fiscal 2006, compared with ₹20 million in fiscal 2005.

No item of property, plant and equipment is pledged as collateral for a liability.

4.5.2. Analysis of assets held under capital leases

Property, plant and equipment

The tables below show movements in property, plant and equipment held under capital leases by type of asset for fiscal 2006 and 2005.

The Group holds property, plant and equipment under a large number of capital leases in all parts of the world. These leases relate to kitchens and kitchen equipment used in many of the 28,300 sites, office equipment, and other assets; the terms are negotiated locally.

	Buildings	Fixtures and fittings	Plant and equipment	Vehicles	Office and computer equipment	Construction in progress and other	TOTAL
(in millions of euro)							
Cost □ August 31, 2005	77	27	66	19	10	19	218
Accumulated depreciation/impairment □ August 31, 2005	(52)	(17)	(50)	(9)	(7)	(10)	(145)
Carrying amount □ August 31, 2005	25	10	16	10	3	9	73
Increases during the period	3	1	10	2	1	2	19
Decreases during the period	0	0	(1)	(1)	0	0	(2)
Assets classified as held for sale	0	0	0	0	0	0	0
Newly consolidated companies	0	0	0	0	0	0	0
Newly deconsolidated companies	0	0	0	0	0	0	0
Depreciation expense	(4)	(3)	(8)	(2)	(2)	(3)	(22)
Impairment losses recognised in profit or loss	0	0	0	0	0	0	0
Impairment losses reversed in profit or loss	0	0	0	0	0	0	0
Translation adjustment	0	0	0	0	0	0	0
Other	0	(1)	1	0	0	0	0
Carrying amount □ August 31, 2006	24	7	18	9	2	8	68
(in millions of euro)							
	Buildings	Fixtures and fittings	Plant and equipment	Vehicles	Office and computer equipment	Construction in progress and other	TOTAL
Cost □ September 1, 2004	77	25	67	37	13	20	239
Accumulated depreciation/impairment □ September 1, 2004	(47)	(15)	(44)	(24)	(8)	(10)	(148)
Carrying amount □ September 1, 2004	30	10	23	13	5	10	91
Increases during the period	1		3	1	1	1	7
Decreases during the period	□			(2)	(1)		(3)
Assets classified as held for sale	□						0
Newly consolidated							

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companies	□						0
Newly deconsolidated companies	□						0
Amortization/Depreciation expense	(6)	(2)	(6)	(2)	(2)	(3)	(21)
Impairment losses recognised in profit or loss	□						0
Impairment losses reversed in profit or loss	□						0
Translation adjustment	□			(1)			(1)
Other	□	2	(4)	1		1	0
Carrying amount □							
August 31, 2006	25	10	16	10	3	9	73

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Intangible assets

Software accounts for the majority of intangible assets treated as capital leases.

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Cost	2	0
Accumulated amortisation	(2)	0
Carrying amount	0	0
Maturity of discounted and undiscounted minimum capital lease payments as of August 31, 2006		
	Undiscounted obligation	Discounted obligation
Less than 1 year	25	22
1 to 5 years	41	37
More than 5 years	13	12
Total minimum lease payments	79	71

4.6. Goodwill

		August 31, 2005	Additions during the period	Decreases during the period	Translation adjustment	Other	August 31, 2006
FFMS North America	Gross	2, 259	1	0	(114)	(7)	2,139
	Impairment	0	0	0	0	0	0
FFMS United Kingdom and Ireland	Gross	677	0	0	8	0	685
	Impairment	0	0	0	0	0	0
FFMS France	Gross	243	14	0	0	0	257
	Impairment	(1)	(1)	0	0	0	(2)
FFMS Scandinavia	Gross	129	0	0	1	0	130
	Impairment	0	0	0	0	~	0
FFMS Netherlands	Gross	121	0	0	0	~	121
	Impairment	0	0	0	0	0	0
FFMS Belgium	Gross	24	0	0	0	0	24
	Impairment	0	0	0	0	0	0
FFMS Spain	Gross	19	0	0	0	0	19
	Impairment	0	0	0	0	0	0
FFMS Italy	Gross	16	1	0	0	0	17
	Impairment	0	0	0	0	0	0
FFMS Germany	Gross	17	1	0	0	0	18
	Impairment	0	0	0	0	0	0

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Other FFMS							
Continental							
Europe	Gross	5	0	0	0	0	5
	Impairment	(1)	0	0	0	0	(1)
FFMS Continental							
Europe	Gross	574	16	0	1	0	591
	Impairment	(2)	(1)	0	0	0	(3)
FFMS Asia-Australia	Gross	34	0	0	(1)	0	33
	Impairment	0	0	0	0	0	0
FFMS South America	Gross	23	0	0	0	0	23
	Impairment	0	0	0	0	0	0
Universal Sodexo	Gross	47	0	0	(2)	0	45
	Impairment	0	0	0	0	0	0
Other	Gross	1	0	0	0	0	1
	Impairment	0	0	0	0	0	0

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		August 31, 2005	Additions during the period	Decreases during the period	Translation adjustment	Other	August 31, 2006
FFMS Rest of the world	Gross	105	0	0	(3)	0	102
	Impairment	0	0	0	0	0	0
SVC Brazil	Gross	60	0	0	3	0	63
	Impairment	0	0	0	0	0	0
SVC Argentina	Gross	16	14	0	(2)	0	28
	Impairment	0	0	0	0	0	0
Other SVC	Gross	16	3	0	(1)	0	18
	Impairment	(2)	0	0	0	0	(2)
SVC	Gross	92	17	0	0	0	109
	Impairment	(2)	0	0	0	0	(2)
Holding companies	Gross	2	0	0	0	0	2
	Impairment	0	0	0	0	0	0
TOTAL	Gross	3,709	34	0	(108)	(7)	3,628
	Impairment	(4)	(1)	0	0	0	(5)

The increase in goodwill was due to the acquisitions of the Paris cabaret, the Lido (SEGHSMI), in France and Ticket Total in Argentina (see note 4.24). The put option on Sodexo exercised in fiscal 2006 by the original vendors for the 20% minority interest in Altys Multiservices did not impact goodwill. In the United States, the utilization in fiscal 2006 of tax loss carryforwards related to a previous acquisition, for which no deferred tax assets had been recorded at the time of acquisition, resulted in a \$7 million decrease in goodwill (see note 2.4).

		September 1, 2004	Additions during the period	Decreases during the period	Translation adjustment	Other	August 31, 2005
FFMS North America	Gross	2,273	2	0	(16)	0	2,259
	Impairment	0	0	0	0	0	0
FFMS United Kingdom and Ireland	Gross	684	0	0	(7)	0	677
	Impairment	0	0	0	0	0	0
FFMS France	Gross	240	3	0	0	0	243
	Impairment	0	(1)	0	0	0	(1)
FFMS Scandinavia	Gross	130	2	0	(3)	0	129
	Impairment	0	0	0	0	~	0
FFMS Netherlands	Gross	121	0	0	0	~	121
	Impairment	0	0	0	0	0	0
FFMS Belgium	Gross	23	1	0	0	0	24
	Impairment	0	0	0	0	0	0

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FFMS Spain	Gross	19	0	0	0	0	19
	Impairment	0	0	0	0	0	0
FFMS Italy	Gross	17	0	(1)	0	0	16
	Impairment	0	0	0	0	0	0
FFMS Germany	Gross	17	0	0	0	0	17
	Impairment	0	0	0	0	0	0
Other FFMS Continental							
Europe	Gross	4	1	0	0	0	5
	Impairment	0	(1)	0	0	0	(1)
FFMS Continental Europe	Gross	571	7	(1)	(3)	0	574
	Impairment	0	(2)	0	0	0	(2)
FFMS Asia-Australia	Gross	33	0	0	1	0	34
	Impairment	0	0	0	0	0	0
FFMS South America	Gross	19	0	0	4	0	23
	Impairment	0	0	0	0	0	0
Universal Sodexho	Gross	63	0	(9)	(1)	(6)	47
	Impairment	0	0	0	0	0	0
Other	Gross	1	0	0	0	0	1

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		September 1, 2004	Additions during the period	Decreases during the period	Translation adjustment	Other	August 31, 2005
FFMS Rest of the world	Impairment	0	0	0	0	0	0
	Gross	116	0	(9)	4	(6)	105
	Impairment	0	0	0	0	0	0
SVC Brazil	Gross	49	0	0	11	0	60
	Impairment	0	0	0	0	0	0
SVC Argentina	Gross	16	0	0	0	0	16
	Impairment	0	0	0	0	0	0
Other SVC	Gross	14	2	0	0	0	16
	Impairment	0	(2)	0	0	0	(2)
SVC	Gross	79	2	0	11	0	92
	Impairment	0	(2)	0	0	0	(2)
Holding companies	Gross	2	0	0	0	0	2
	Impairment	0	0	0	0	0	0
TOTAL	Gross	3,725	11	(10)	(11)	(6)	3,709
	Impairment	0	(4)	0	0	0	(4)

FFMS: Food and Facilitie Management Services

SVC: Service Vouchers and Cards

4.7. Intangible assets

The tables below show movements in intangible assets during fiscal 2006 and fiscal 2005.

	Licences and software	Other intangible assets	TOTAL
Cost - August 31, 2005	174	26	200
Accumulated amortization/impairment - August 31, 2005	(102)	(11)	(113)
Carrying amount □ August 31, 2005	72	15	87
Increases during the period	17	46	63
Internally-generated assets	2	0	2
Decreases during the period	(1)	(2)	(3)
Assets classified as held for sale	0	0	0
Newly consolidated companies	0	11	11
Newly deconsolidated companies	0	0	-
Amortization expense	(31)	(2)	(33)
Impairment losses recognised in profit or loss	(1)	0	(1)

Explanation of Responses:

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Impairment losses reversed in profit or loss	0	0	0
Translation adjustment	0	0	0
Other	0	0	0
Carrying amount □ August 31, 2006	58	68	126

Amortization and impairment losses recognized in the income statement are classified as operating items and reported under either cost of sales, general and administrative costs or sales department costs.

	Licences and software	Other intangible assets	TOTAL
Cost □ September 1, 2004	169	25	194
Accumulated amortization/impairment □ September 1, 2004	(79)	(10)	(89)
Carrying amount □ September 1, 2004	90	15	105
Increases during the period	17	0	17
Internally-generated assets	1	0	1
Decreases during the period	(1)	0	(1)
Assets classified as held for sale	0	0	

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	Licences and software	Other intangible assets	TOTAL
Newly consolidated companies	0	0	
Newly deconsolidated companies	0	0	-
Amortization expense	(35)	(1)	(36)
Impairment losses recognised in profit or loss	0	0	
Impairment losses reversed in profit or loss	0	0	
Translation adjustment	0	0	
Other	0	1	1
Carrying amount □ August 31, 2005	72	15	87

4.8. Client investments

	Fiscal 2005	Fiscal 2006
Carrying amount - September 1	120	138
Increases during the period	43	44
Decreases during the period	(24)	(29)
Translation adjustment	00	(7)
Other	(1)	0
Carrying amount - August 31	138	146

4.9. Investments in associates

	August 31, 2005	Profit/(loss) for the period	Dividend paid for the period	Changes in scope of consolidation	Translation adjustment and other items	August 31, 2006
(in millions of euro)						
Doyon Universal Services (1)	15.0	1.0	(0.5)	0.0	(0.8)	14.7
BAS	4.8	0.7	0.0	0.0	0.0	5.5
BAS 2	3.2	0.0	0.0	0.0	0.0	3.2
NANA	7.6	0.9	0.0	0.0	(0.4)	8.1
RMPA Holdings Ltd	1.2	0.4	0.0	0.0	0.9	2.5
South Manchester (2)	0.0	2.3	(0.2)	0.0	(0.7)	1.4
Other	0.3	0.8	(0.4)	0.2	0.0	0.9
Total	32.1	6.1	(1.1)	0.2	(1.0)	36.3

(1) Includes goodwill of □5.8 million as of August 31, 2006

(2) South Manchester had negative net assets as of August 31, 2005, which were recognized as a liability.

The Group's share of the negative net assets of associates is recognized as a liability (see note 4.19.).

This liability comprises the following:

	August 31, 2005	Profit/(loss) for the period	Dividend paid for the period	Changes in scope of consolidation	Translation adjustment and other items	August 31, 2006
(in millions of euro)						
SERCO						
Sodexo						
Defense						
Services	(4.4)	0.7	0.0	0.0	0.1	(3.6)
Peterborough						
Prison						
Management	(3.3)	1.2	0.0	0.0	0.9	(1.2)
Agecroft						
(A.P.M.)	(2.9)	0.0	0.0	0.0	0.0	(2.9)
Sodexo						
Catalyst						
Roehampton	(2.8)	0.2	0.0	0.0	(0.4)	(3.0)
Ashford Prison						
Services	(2.2)	0.0	0.0	0.0	0.7	(1.5)
Kings College	(1.5)	(0.4)	0.0	0.0	0.0	(1.9)

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	August 31, 2005	Profit/(loss) for the period	Dividend paid for the period	Changes in scope of consolidation	Translation adjustment and other items	Aug 2
	(in millions of euro)					
South Manchester (1)	(1.5)	0.0	0.0	0.0	1.5	
Enterprise Healthcare Holdings Ltd	(0.8)	0.0	0.0	0.0	0.0	
Addiewell Prison	0.0	0.0	0.0	0.0	(1.1)	
Other	(0.4)	(0.1)	0.0	0.0	0.2	
Provision for negative net assets	(19.6)	1.6	0.0	0.0	1.9	

(1) South Manchester had negative net assets as of August 31, 2005, which were recognized as a liability.

	Country of operations	% interest	Balance sheet total	Assets	Liabilities	Equity	Revenues	Profit/(loss) for the period
RMPA Holdings Ltd*	UK	14.0%	995	995	977	18	226	3
Manchester Royal Infirmary PF*	UK	25.0%	565	565	564	1	106	2
Sodexo Catalyst Romford HA*	UK	25.0%	377	377	377	0	119	0
BAS (Chile)*	Chile	33.3%	252	252	236	16	13	2
Kings College (HPC LTD)* Peterborough Prison	UK	25.0%	149	149	157	(7)	21	(2)
Management* South Manchester UK*	UK	33.3%	141	141	145	(4)	30	3
Sodexo Catalyst Roehampton*	UK	25.0%	138	138	132	5	20	9
Mercia UK Healthcare* Ashford Prison Services*	UK	25.0%	124	124	136	(12)	25	1
Agecroft (A.M.P.)*	UK	33.3%	114	114	114	1	8	1
Enterprise Healthcare Holdings Ltd (UK)*	UK	50.0%	104	104	108	(5)	24	(0)
Fife (UK)*	UK	10.0%	73	73	79	(6)	27	0
	UK	10.0%	71	71	79	(8)	29	(0)
	UK	10.0%	71	71	71	(0)	9	0

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Conwy (UK)* NANA	UK	10.0%	63	63	63	1	6	1
(Sodexo Inc) Enterprise Civic Buildings Holdings Ltd	USA	43.6%	55	55	35	20	79	3
(UK)* Addiewell	UK	10.0%	39	39	37	2	2	3
Prison Ltd*	UK	33.3%	39	39	42	(3)	30	0
BAS 2 (Chile)* Doyon Universal Services	Chile	33.3%	35	35	26	10	0	0
JV Serco Sxo Defence Sces	USA	49.9%	26	26	2	23	52	2
PTY	Australia	50.0%	16	16	23	(7)	81	2

* Project companies established in connection with public private partnerships (see 2.3.2).

4.10. Impairment of assets

Impairment losses recognized as of August 31, 2006

	August 31, 2005	Recognized	Reversed	Other	August 31, 2006
	(in millions of euro)				
Goodwill	4	1	0	0	5
Intangible assets	0	1	0	0	1
Property, plant and equipment	1	3	0	0	4
Impairment of assets	5	5	0	0	10

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Impairment losses recognized in the income statement are classified as operating items and reported under either cost of sales, general and administrative costs or sales department costs.

Assets with indefinite useful lives were tested for impairment as of August 31, 2006 using the methods described in note 2.8.2.

The main assumptions used were:

	<u>FFMS France</u>	<u>FFMS North America</u>	<u>FFMS United Kingdom</u>	<u>FFMS Sweden</u>
Discount rate	7.9%	7.9%	7.9%	7.9%
Long-term growth rate	2.0%	2.5%	2.5%	2.0%

For other countries and the Service Vouchers and Cards activity, the discount rate applied to future cash flows was 7.9% (uplifted by up to 80% for countries regarded as having a higher degree of risk), and the long-term growth rate used to extrapolate terminal value from the third year of the business plan was 2% (rising up to 6.2% for subsidiaries in developing countries).

As of August 31, 2006, in connection with the evaluation for impairment of the goodwill on Sodexo Venues Australia (FFMS Australia), an impairment loss of \$4 million was recognized and allocated to the non-current assets of Sodexo Venues Australia. The amount of the impairment loss was determined by reference to value in use, based on the following assumptions:

- discount rate: 8.00%
- long-term growth rate: 3.00%

Sensitivity analysis

The Group has analyzed the sensitivity of impairment test results to differences in long-term growth rates.

Using current profitability assumptions, an impairment loss might be recognized for the Food and Facilities Management Services activity in the United Kingdom if the long term growth rate were to become negative.

The Group has also verified that the use of pre-tax discount rates applied to pre-tax cash flows would not materially change the impairment test results.

4.11. Financial assets

NON-CURRENT	August 31, 2005	Increase/ (decrease) during the period	Change in scope of consolidation	Translation adjustment and other items	August 31, 2006
Available-for-sale assets					
Investments in non-consolidated companies					
Cost	41	0	(2)	4	43
Impairment	(1)	0	0	(5)	(6)

Carrying amount	40	0	(2)	(1)	37
<hr/>					
Other investment securities					
Cost	0	0	0	0	0
Impairment	0	0	0	0	0
<hr/>					
Carrying amount	0	0	0	0	0
<hr/>					
Loans and receivables					
Receivables from equity investees					
Cost	22	2	1	1	26

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NON-CURRENT	August 31, 2005	Increase/ (decrease) during the period	Change in scope of consolidation	Translation adjustment and other items	August 31, 2006
Impairment	0	0	0	(1)	(1)
Carrying amount	22	2	1	0	25
Loans					
Cost	4	0	0	(1)	3
Impairment	0	0	0	0	0
Carrying amount	4	0	0	(1)	3
Financial assets at fair value through profit and loss					
Other financial assets at fair value	8	0	1	1	10
Total non-current financial assets					
Cost	75	2	0	5	82
Impairment	(1)	0	0	(6)	(7)
Carrying amount	74	2	0	(1)	75

Principal non-consolidated equity investments

The Group holds an 18.50% interest in Bellon SA, the parent company of Sodexo Alliance, carried at a value of ₹32.4 million. This available-for-sale financial asset is an investment in a company that does not have a quoted market price on an active market, and whose value cannot be reliably measured. In addition, this investment is not a liquid debt instrument. Consequently, it is carried at cost.

The Group also holds a 9.3% interest in Leoc Japan Co, carried at a value of ₹2.8 million. This investment is measured at its quoted stock market price.

CURRENT	August 31, 2005	Increase/ (decrease) during the period	Change in scope of consolidation	Translation adjustment and other items	August 31, 2006
Available-for-sale financial assets					
Marketable securities with a maturity over 3 months					

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Cost	1	(1)	0	0	0
Impairment	0	0	0	0	0
Net Value	1	(1)	0	0	0
Restricted cash and other financial assets: Service Vouchers and Cards activity					
Cost	326	107	2	(12)	423
Impairment	0	0	0	0	0
Net Value	326	107	2	(12)	423
Loans and receivables					
Loans due within less than 1 year					
Cost	2	2	0	0	4
Impairment	0	(2)	0	0	(2)
Net Value	2	0	0	0	2
Financial assets at fair value through profit and loss					
Cost	2	2	0	0	4
Impairment	0	(2)	0	0	(2)
Net Value	4	0	0	(1)	3

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CURRENT	August 31, 2005	Increase/ (decrease) during the period	Change in scope of consolidation	Translation adjustment and other items	August 31, 2006
Financial assets at fair value through profit and loss					
Other financial assets at fair value	4	12	0	(1)	15
Total current financial assets					
Cost	333	120	2	(13)	442
Impairment		(2)			(2)
Net Value	333	118	2	(13)	440

Restricted cash, included in Restricted cash and financial assets related to the Service Vouchers and Cards activity, amounts to 281 million. The main components of this figure are funds set aside to comply with regulations governing the issuance of service vouchers in France (177 million) and Romania (37 million); guarantee funds for affiliates in Mexico (9 million); and contractual guarantees given to public-sector clients in Venezuela (22 million).

Gains and losses recognized directly in equity on available-for-sale financial assets during fiscal 2006 represented a net loss of 9 million.

Gains and losses reversed out of equity and recognized in the income statement in financial income and expense during fiscal 2006 were immaterial.

Of the net 12 million increase in financial assets at fair value through profit and loss, 13 million represents cash invested in connection with a liquidity contract signed with Oddo Corporate Finance.

4.12. Inventories

	August 31, 2005	Increase/ (decrease) during the period	Change in scope of consolidation	Translation adjustment and other items	August 31, 2006
	(in millions of euro)				
Cost	178	(3)	0	(6)	169
Impairment	(2)	1	0	0	(1)
Carrying amount	176	(2)		(6)	168

Inventories mainly comprise food and other high-throughput consumables. Changes in inventories are included in cost of sales, sales department costs or general and administrative costs, depending on the nature of the inventory.

No inventories are pledged as collateral for a liability.

4.13. Trade and other receivables

	Gross amount as of August 31, 2006	Impairment as of August 31, 2006	Carrying amount as of August 31, 2006	Carrying amount as of August 31, 2006
	(in millions of euro)			
Net post-employment plan assets (*)	0	0	0	2
Other non-current assets	18	0	18	16
Total other non-current assets	18	0	18	18
Advances to suppliers	9	0	9	5
Trade receivables	1,729	(84)	1,645	1,508
Other operating receivables	177	(4)	173	175
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	Gross amount as of August 31, 2006	Impairment as of August 31, 2006	Carrying amount as of August 31, 2006	Amount as of August 31, 2006
	(in millions of euro)			
Prepaid expenses	78	0	78	57
Non-operating receivables	2	0	2	5
Assets held for sale	2	0	2	0
Total trade and other receivables	1,997	(88)	1,909	1,750

*For details of net post-employment benefit plan assets, see note 4.18. □Long-term employee benefits□

4.14. Cash and cash equivalents

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Marketable securities	373	433
Cash	669	516
Sub-total: cash and cash equivalents	1,042	949
Bank overdrafts	(36)	(21)
Net cash and cash equivalents	1,006	928

Marketable securities comprised:

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Short-term notes	97	199
Term deposits	117	97
Listed bonds	43	45
SICAVs and other	116	92
Total marketable securities	373	433

4.15. Statement of changes in shareholders' equity

Shares outstanding	Treasury shares		Shareholders' equity attributable to:				Treasury s
	Shares outstanding						
	Quantity	Common stock	Additional paid in capital	Cumulative translation adjustment	Consolidated reserves	Retained earnings	Quantity
Shareholders' equity as of September 1, 2004	159,026,413	636	1 186	0	(523)	739	(3,033,771)
Common stock issued	0	0	0	0	0	0	0
Dividends paid (excluding treasury shares)	0	0	0	0	0	(109)	0
Sodexo Alliance SA profit for prior period	0	0	0	0	(87)	87	0
Profit for current period	0	0	0	0	212	0	0
Changes in scope of consolidation	0	0	0	0	0	0	0
Net sale/(purchase) of treasury shares	0	0	0	0	0	0	(402 129)
Change in cumulative translation adjustment and other movements	0	0	0	10	0	0	0
Items recognized directly in equity	0	0	0	0	9	(9)	0
Shareholders' equity as of August 31, 2005	159,026,413	636	1,186	10	(389)	708	(3,435,900)
Common stock issued	0	0	0	0	0	0	0
Dividends paid (excluding treasury shares)	0	0	0	0	0	(117)	0
Sodexo Alliance SA profit for prior period	0	0	0	0	(77)	77	0
Profit for current period	0	0	0	0	323	0	0
Changes in scope of consolidation	0	0	0	0	0	0	0
Net sale/(purchase) of treasury shares	0	0	0	0	0	0	350,115
Change in cumulative translation adjustment and other movements	0	0	0	(91)	0	0	0
Items recognized directly in equity	0	0	0	0	0	0	0

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	<u>Shares outstanding</u>						<u>Treasury shares</u>	
	<u>Quantity</u>	<u>Common stock</u>	<u>Additional paid in capital</u>	<u>Cumulative translation adjustment</u>	<u>Consolidated reserves</u>	<u>Retained earnings</u>	<u>Quantity</u>	<u>Trea sha rese</u>
Shareholders' equity as of August 31, 2006	159,026,413	636	1 186	(81)	(143)	668	(3,085,785)	

§ The Group holds 3,029,385 Sodexo Alliance shares with a carrying amount of \$85.2 million to cover its obligations under stock option plans awarded to Group employees. These treasury shares are deducted from equity as required by IAS 32. During the period, the Group acquired Sodexo Alliance shares to a value of \$38 million, and delivered Sodexo Alliance shares to a value of \$36 million on the exercise of stock options by employees.

§ The Group also holds 56,400 Sodexo Alliance shares with a carrying amount of \$2.3 million under the liquidity contract with Oddo Corporate Finance that became effective July 10, 2006. These treasury shares are deducted from equity as required by IAS 32.

§ The par value of SODEXHO Alliance shares is \$4.

§ The total dividend payout in fiscal 2006 was \$117 million, representing a dividend of \$0.75 per share.

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Other reserves comprise:

	Change in fair value of financial instruments	Actuarial gains and losses	Share-based payment	Other	Total other reserves
Shareholders' equity as of September 1, 2004	(3)	0	0	0	(3)
Items recognized directly in equity	12	8	8	0	28
Tax on items recognized directly in equity	(4)	(2)	2	0	(4)
Shareholders' equity as of August 31, 2005	5	6	10	0	21
Items recognized directly in equity	(7)	(42)	8	0	(41)
Tax on items recognized directly in equity	1	12	11	1	25
Shareholders' equity as of August 31, 2006	(1)	(24)	29	1	5

4.16. Borrowings

	August 31, 2006		August 31, 2005	
	Current	Non- current	Current	Non-current
	(in millions of euro)			
Bond issues				
Euro	30	1,297	30	1,295
Bank borrowings				
U.S. dollar	6	480	3	487
Euro	4	15	2	44
Pound sterling	0	0	0	0
Other currencies	4	5	8	4
	14	500	13	535
Capital lease obligations				
U.S. dollar	0	0	1	1

Explanation of Responses:

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Euro	19	44	24	50
Other currencies	3	5	3	4
	<u>22</u>	<u>49</u>	<u>28</u>	<u>55</u>
Other borrowings				
Euro	1	4	12	4
Other currencies	1	2	2	2
	<u>2</u>	<u>6</u>	<u>14</u>	<u>6</u>
TOTAL	<u>68</u>	<u>1 852</u>	<u>85</u>	<u>1,891</u>

For borrowings other than bond issues, amortized cost is equivalent to historical cost since no significant transaction costs are incurred.

Bond issues

	<u>August 31, 2005</u>	<u>Increases</u>	<u>Repayments</u>	<u>Discounting effect</u>	<u>Translation adjustment</u>	<u>August 31, 2006</u>
1999 bond issue - ₹300 million						
Principal Debt	300	0	0	0	0	300
issuance costs	(2)	0	0	1	0	(1)
Accrued interest	6	0	0	0	0	6
Total	<u>304</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>305</u>

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	<u>August 31, 2005</u>	<u>Increases</u>	<u>Repayments</u>	<u>Discounting effect</u>	<u>Translation adjustment</u>	<u>August 31, 2006</u>
<i>Number of bonds</i>	300,000	0	0	0	0	300,000
<i>Effective rate</i>	4.787%	0	0	0	0	4.787%
2002 bond issue - \$1 billion						
Principal	1,000	0	0	0	0	1,000
Debt issuance costs	(5)	0	0	1	0	(4)
Accrued interest	26	0	0	0	0	26
Total	1,021	0	0	1	0	1,022
<i>Effective rate</i>	6.035%	0	0	0	0	6.035%
Total	1,325	0	0	2	0	1,327

- **\$300 million bond issue**

On March 16, 1999, Sodexho Alliance carried out a \$300 million bond issue comprising 300,000 bonds of \$1,000 each. The bonds are redeemable at par on March 16, 2009 and bear interest at a rate of 4.625% per annum, payable annually on March 16.

- **\$1,000 million bond issue**

On March 25, 2002, Sodexho Alliance carried out a \$1,000 million bond issue, redeemable at par on March 25, 2009. The bonds bear interest at a rate of 5.875% per annum, payable annually on March 25.

Neither of these bond issues is subject to financial covenants.

Other borrowings

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

On April 29, 2005, Sodexho Alliance and Sodexho, Inc. contracted a multi-currency revolving credit facility of up to \$460 million plus \$700 million. The expiry date of this facility was initially set at April 29, 2010, but may be extended at the request of Sodexho Alliance (subject to consent from the lenders), initially to April 29, 2011 and subsequently to April 26, 2012. On March 27, 2006, the lenders agreed to an initial extension of the facility to April 29, 2011.

As of August 31, 2006, this facility had been used to draw down \$566 million at variable rate indexed to LIBOR, and to issue \$115 million of bank guarantees.

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

- **Interest rates**

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

As of August 31, 2006, 73% of the Group's borrowings were at fixed rate. The average rate of interest as of the same date was 5.7%.

Maturity of borrowings

as of August 31 2006	Less than 1 year	1 to 5 years	More than 5 years	Total
Bond issues	30	1,297	0	1,327
Bank borrowings	14	494	6	514

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as of August 31 2006	Less than 1 year	1 to 5 years	More than 5 years	Total
Capital lease obligations	22	37	12	71
Other borrowings	2	4	2	8
TOTAL	68	1,832	20	1,920

as of August 31 2005	Less than 1 year	1 to 5 years	More than 5 years	Total
Bond issues	30	1,295	0	1,325
Bank borrowings	13	528	7	548
Capital lease obligations	28	50	5	83
Other borrowings	14	6	0	20
TOTAL	85	1,879	12	1,976

* Excluding the impact of swaps described in 4.17

4.17. Financial instruments

Financial instruments used to hedge intra-group loans in foreign currencies

August 31, 2006	Note	Borrowings in euro	Borrowings in U.S. dollar	Borrowings in GBP	Borrowings in other currencies	TOTAL
(equivalent value in millions of euro)						
UK borrowings (GBP 83 million)	(1)					
Due to the bank GBP 83 million		0	0	123	0	123
Due from the bank □123 million		(123)	0	0	0	(123)
Fair value adjustment		0	0	0	0	0
Sodexo Skandinavian Holding AB borrowings (SEK 198.6 million)	(2)					
Due to the bank SEK 198.6 million		0	0	0	21	21
Due from the bank □21 million		(21)	0	0	0	(21)
Fair value adjustment		0	0	0	0	0
Sodexo, Inc. borrowings (USD 111.7)						

Explanation of Responses:

million)	(3)					
Due to the bank USD 114.9 million		0	89	0	0	89
Due from the bank □129.6 million		(130)	0	0	0	(130)
Fair value adjustment		(1)	0	0	0	(1)
Borrowings by other subsidiaries (aggregate)		(10)	12	0	0	2
Total financial instruments		(285)	101	123	21	(40)

August 31, 2005	Note	Borrowings in euro	Borrowings in U.S. dollar	Borrowings in GBP	Borrowings in other currencies	TOTAL
		(equivalent value in millions of euro)				
UK borrowings (GBP 86 million)	(1)					
Due to the bank GBP 86 million		0	0	126	0	126
Due from the bank □126 million		(126)	0	0	0	(126)
Fair value adjustment		0	0	0	0	0

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August 31, 2005	Note	Borrowings in euro	Borrowings in U.S. dollar	Borrowings in GBP	Borrowings in other currencies	TOTAL
(equivalent value in millions of euro)						
Sodexo Skandinavian Holding AB						
borrowings						
(SEK 242 million)						
	(2)					
Due to the bank SEK 242 million		0	0	0	26	26
Due from the bank □26 million		(26)	0	0	0	(26)
Fair value adjustment		0	0	0	0	0
Sodexo, Inc.						
borrowings (USD 111.7 million)						
	(3)					
Due to the bank USD 115 million		0	04	0	0	94
Due from the bank □130 million		(130)	0	0	0	(130)
Fair value adjustment		(4)	0	0	0	(4)
Borrowings by other subsidiaries (aggregate)		(9)	6	0	5	2
Total financial instruments		(295)	100	126	31	(38)

- 1) A currency swap (£83 million for □123 million) has been contracted to hedge an intragroup loan of £83 million. This swap will expire on November 30, 2006.
- 2) Currency swaps (SEK199 million for □21 million) have been contracted to hedge in full an intragroup loan of the same amount to Sodexo Scandinavian Holding AB. This swap will expire in August 2007.
- 3) In March 2002, a cross currency swap (6.325% for 6.5775%, euros for U.S. dollars) was contracted to hedge in full an initial intragroup loan of \$309 million made by Sodexo Alliance to Sodexo, Inc., repayable March 25, 2007. As of August 31, 2006, the swap covered \$115 million versus □130 million. The depreciation of the U.S. dollar and movements in interest rates since the inception of the swap have resulted in a reduction of □42 million in consolidated borrowings after translation into euros.

The Group has no interest rate swaps that are accounted for as cash flow hedges.

Fair value of financial instruments

	August 31, 2006		
	Carrying amount	Fair value	Difference
(in millions of euro)			
FINANCIAL ASSETS			
Investments in non-consolidated companies	37	37	0

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Receivables from investees	25	25	0
Other investment securities	0	0	0
Loans	3	3	0
Other non-current financial assets	10	10	0
☐ Total non-current financial assets	75	75	0
☐ Associates	36	36	0
☐ Derivative instruments	42	42	0
☐ Loans and other current financial assets	17	17	0
☐ Financial assets: Service Vouchers & Cards activity	423	423	0
☐ Marketable securities	373	373	0
	<hr/>	<hr/>	<hr/>
Total financial assets	966	966	0
	<hr/>	<hr/>	<hr/>
FINANCIAL LIABILITIES			
Bond issues			
2002 ☐1 billion bond issue	1,022	1,071	49

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	August 31, 2006		
	Carrying amount	Fair value	Difference
	(in millions of euro)		
1999 €300 million bond issue	305	311	6
• Sub-total	1,327	1,382	55
Bank borrowings	0	0	0
Sodexo, Inc. borrowings	486	486	0
Other	28	28	0
• Sub-total	514	514	0
• Derivative instruments	2	2	0
• Bank overdrafts	36	36	0
• Other borrowings	79	79	0
Total financial liabilities	1,958	2,013	55

4.18. Long-term employee benefits

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Net plan assets *	0	(2)
Defined-benefit plans	260	224
Other long-term employee benefits	90	86
Employee benefits	350	310

* Reported in [Other non-current assets] in the balance sheet

4.18.1. Post-employment benefits

Defined-contribution plans

Under a defined-contribution plan, periodic contributions are made to a separate entity that is responsible for the administrative and financial management of the plan. Under such a plan, the employer is relieved of any future liability, as the external entity is responsible for paying benefits to employees as they fall due.

Contributions made by the Group are expensed in the period to which they relate.

Defined-benefit plans

The Group's principal defined-benefit plans are described below:

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- In France, the obligation primarily represents lump-sum benefits payable on retirement if the employee is still with the company at retirement age.

These obligations are covered by specific provisions in the balance sheet.

- In the United Kingdom, the Group's obligation relates to a complementary retirement plan, partially funded by externally-held assets, and calculated on the basis of:
 - a percentage of final basic salary, in the case of managerial grade staff allocated to the private sector;
 - benefits comparable to those offered in the public sector, in the case of managerial grade staff allocated to the public sector.

The Group closed this plan to new employees effective July 1, 2003, and increased the level of contributions in order to make good the shortfall in the fund.

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- In Continental Europe other than France, the main defined-benefit plans are as follows:
 - In Italy, there is a legal obligation to pay a lump-sum retirement benefit (TFR). At each balance sheet date, rights fully vested in employees are valued and discounted as specified by law, and recognized in full as a liability.
 - In the Netherlands, certain employees are entitled to complementary retirement or early retirement benefits.

The Group also contributes to multi-employer plans, mainly in Sweden and the United States. These plans are accounted for as defined-contribution plans.

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

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Net plan assets *	0	(2)
Defined-benefit plans **	260	224

* Reported in Other non-current assets in the balance sheet

** Reported as a liability in the balance sheet under Employee benefits

These amounts are as follows:

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Present value of funded obligations	591	511
Fair value of plan assets	(434)	(388)
Present value of partially funded obligations	157	123
Present value of unfunded obligations	103	99
Unrecognized past service cost	(1)	-
Other unrecognized amounts*	1	-
Net obligation in the balance sheet	260	222

* Relates to the restriction contained in paragraph 58B of IAS 19, which applies to Norway and Altys. In these two cases, the future economic benefits of the surplus (excess of the fair value of plan assets over the present value of the obligation) will either not be available to the Group (Altys) or only partially available to the Group (Norway).

As described in note 2, the Group has elected to apply the option offered in paragraph 93A of the amended IAS 19, issued December 2004, which allows actuarial gains and losses arising during the period to be recognized outside the income statement.

Actuarial gains and losses reported in the statement of changes in shareholders' equity as of August 31, 2005 represented a net actuarial gain of 8 million. Cumulative actuarial gains and losses recognized in equity as of

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August 31, 2006 represented a net actuarial loss of €33 million. In accordance with paragraph 93C of the amended IAS 19, issued December 2004, the Group also recognized outside the income statement the negative effect of €1 million arising from the restriction of the plan surpluses for Norway and Altys.

Plan assets comprise:

	<u>August 31, 2006</u>	<u>August 31, 2005</u>
	(in millions of euro)	
Equities	275	262
Government bonds	69	80
Corporate bonds	70	24
Insurance policies	11	0
Real estate	2	13

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	August 31, 2006	August 31, 2005
	(in millions of euro)	
Cash	7	9
TOTAL	434	388

The table below details the net post-employment benefit expense reported in the income statement:

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Current service cost	35	34
Interest cost	27	27
Expected return on plan assets	(26)	(23)
Amortization of unrecognized past service cost & other	1	□
Net expense	37	38

This net expense is reported on the following lines:

- □26 million (□23 million in fiscal 2005) in cost of sales;
- □1 million (□1 million in fiscal 2005) in sales department costs;
- □9 million (□10 million in 2005) in general and administrative costs;
- the balance (financing cost and expected return on plan assets) in financial income or expense

Changes in the present value of the defined-benefit plan obligation since September 1, 2005 are shown below:

Obligation as of September 1, 2005	610
Current service cost	35
Interest cost	27
Actuarial (gains)/losses	37
Past service cost	1
Effect of curtailments and settlements	(2)
Contributions made by plan members	7
Benefits paid	(26)
Business combinations	0
Translation difference	5
Other	0
Obligation as of August 31, 2006	694

Explanation of Responses:

Of the \$37 million of actuarial losses arising in fiscal 2006, a loss of \$1 million was due to experience adjustments (compared with a gain of \$7 million from experience adjustments in fiscal 2005).

Changes in the fair value of plan assets since September 1, 2005 are shown below:

Fair value of plan assets as of August 31, 2005	388
Expected return on plan assets	26
Employer's contributions	40
Actuarial (gains)/losses	(4)
Effect of curtailments and settlements	(2)
Contributions made by plan members	7
Benefits paid	(26)
Business combinations	0

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Fair value of plan assets as of August 31, 2005	388
Translation difference	5
Other	0
Fair value of plan assets as of August 31, 2006	434

The following assumptions were used for actuarial valuations as of August 31, 2006 and August 31, 2005:

As of August 31,2006	France	Netherlands	United Kingdom	Italy
Discount rate	4.50%	4.50%	5.10%	4.50%
Salary inflation rate	2.5%-2.6%	1.75%	4.25%	4.00%
General inflation rate	2.00%	2.00%	3.00%	2.00%
Rate of return on plan assets	4.00%	5.40%	6.70%	N/A
Amount of obligation in balance sheet	25	10	138	56

As of August 31,2005	France	Netherlands	United Kingdom	Italy
Discount rate	4.00%	4.00%	5.10%	4.00%
Salary inflation rate	2.50%	2.00%	3.95%	3.80%
General inflation rate	2.00%	2.00%	3.00%	2.00%
Rate of return on plan assets	N/A	5.90%	6.80%	N/A

The expected rates of return on plan assets were determined by reference to market expectations of returns for each asset class over the life of the related obligation. For each fund, the expected rate of return is weighted to reflect the proportion of each asset class held by the relevant fund. The actual return on plan assets in fiscal 2006 was €23 million, compared with an expected return of €26 million. Based on estimates derived from reasonable assumptions, the Group expects to pay €28 million into defined-benefit plans in fiscal 2007.

4.18.2. Other employee benefits

The Group also recognizes a liability for other employee benefits, mainly related to a deferred compensation program in the United States and obligations relating to long-service awards.

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

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Other long-term employee benefits	90	86

The total expense recognized with respect to these benefits in fiscal 2006 was €11 million. This figure includes €3 million for the deferred compensation program in the United States, reported in financial expense.

4.19. Provisions

Explanation of Responses:

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	August 31, 2005	Charged	Utilized	Released without corresponding charge	Translation adjustment and other items	Changes in scope of consolidation	Discounting impact on long-term provisions	August 31, 2006
Payroll and other taxes	24	8	(3)	0	0	1	0	3
Employee claims and litigation **	80	5	(63)	(9)	0	1	0	1
Contract termination and loss-making contracts	14	22	(3)	0	(1)	0	0	3
Client/supplier claims and litigation	5	7	(1)	(1)	(1)	0	0	9
Negative net assets of associates *	20	0	0	0	(4)	0	0	1
Other	7	4	(1)	(2)	(1)	0	0	9
Total	150	46	(71)	(12)	(7)	2	0	10

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* Provisions for negative net assets of associates (see note 4.9.)

** See note 4.28.

All movements in provisions during the period were recognized in operating profit. The current/non-current portion of provisions are as follows:

	Current provisions	Non-current provisions
Payroll and other taxes	9	21
Employee claims and litigation **	11	3
Contract termination and loss-making contracts	12	20
Client/supplier claims and litigation	5	4
Negative net assets of associates (*)	0	16
Other	3	4
Total	40	68

(*) Provisions for negative net assets of associates (see note 4.9.)

4.20. Trade and other payables

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Other non-current liabilities	101	80
Total other non-current liabilities	101	80
Advances from clients	217	174
Trade payables	1 138	1 123
Employee-related liabilities	687	573
Tax liabilities	176	198
Other operating liabilities	71	82
Deferred revenues	50	38
Other non-operating liabilities	30	9
Total trade and other payables	2,369	2,197

Employee-related liabilities include short-term employee benefit obligations.

4.21. Deferred taxes

August 31, 2006	August 31, 2005
------------------------	------------------------

	(in millions of euro)	
Deferred tax assets	242	225
Deferred tax liabilities	(49)	(54)
	<hr/>	<hr/>
Deferred tax assets (net)	193	171
	<hr/>	<hr/>

Deferred tax assets not recognized because their recovery is regarded as not probable total €40 million, including €8 million of tax loss carry-forwards recorded by subsidiaries prior to their acquisition.

Sources of deferred taxes are as follows:

	August 31, 2006	August 31, 2005
	(in millions of euro)	
Temporary differences (net)		
- Employee-related liabilities	203	194
- Fair value of financial instruments	1	(2)
- Other temporary differences	(18)	(29)
- Tax loss carry-forwards	7	8
	<hr/>	<hr/>

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	August 31, 2006	August 31, 2005
	(in millions of euro)	
Deferred tax assets (net)	193	171

Temporary differences on employee related liabilities relate primarily to:

- Workers' compensation liabilities in the United States, which are not deductible for tax purposes until payments are actually made to employees;
- post-employment benefits;
- stock option plans in the United States.
- Net deferred tax assets recognized directly in shareholders' equity as of August 31, 2006 totaled €23 million.

4.22. Cash flow statement

Changes in working capital

	August 31, 2005	Increase/ decrease	Translation adjustment and other items	Changes in scope of consolidation	August 31, 2006
(in millions of euro)					
Other non-current assets	18	3	(3)	0	18
Inventories	176	(2)	(6)	0	168
Advances to suppliers	5	4	0	0	9
Trade receivables, net	1 508	167	(31)	1	1,645
Other operating receivables	175	12	(14)	0	173
Prepaid expenses	57	9	11	1	78
Assets held for sale	0	1	1	0	2
Operating receivables	1,745	193	(33)	2	1,907
Restricted cash and financial assets:					
Service Vouchers and Cards activity	326	107	(12)	2	423
Change in asset items in working capital	2,265	301	(54)	4	2,516
Receivables related to investing and financing activities	5	(1)	(2)	0	2
Employee benefits	310	7	31	1	349
Other non-current liabilities	80	13	(12)	0	81
Advances from clients	174	50	(3)	(4)	217

Explanation of Responses:

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Trade payables	1,123	33	(22)	4	1,138
Tax and employee-related liabilities	771	88	(1)	5	863
Other operating liabilities	82	20	(32)	1	71
Deferred revenues	38	0	12	0	50
Operating liabilities	2,188	191	(46)	6	2,339
Vouchers payable	1,001	131	(20)	15	1,127
Change in liability items in working capital	3,579	342	(47)	22	3,896
Liabilities related to investing and financing activities	9	40	1	0	50

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Changes in borrowings

	August 31, 2005	Increase / decrease	New leases	Accrued interest	Changes in scope of consolidation	Translation adjustment and other items	August 31, 2006
(in millions of euro)							
Bond issues	1,326	0	0	0	0	1	1,327
Bank borrowings	548	(17)	0	2	7	(26)	514
Capital lease obligations	82	(29)	19	0	(1)	0	71
Other borrowings	20	0	0	0	0	(12)	8
Derivative instruments	(38)	(2)	0	0	0	0	(40)
Borrowings	1,938	(48)	19	2	6	(37)	1,880

Acquisitions and disposals of non-current assets and client investments

	Acquisitions	Disposals	Net change
(in millions of euro)			
Capital expenditure	(207)	17	(190)
Associates and non-current financial assets	(17)	2	(15)
Less: tax effect of disposals	0	0	0
Acquisitions/disposals of non-current assets	(224)	19	(205)
Acquisitions/disposals of subsidiaries	(51)	22	(29)
Net cash of subsidiaries acquired/sold	21	3	24
Less: tax effect of disposals	0	0	0
Net cash effect of acquisitions/disposals of subsidiaries	(30)	25	(5)
TOTAL	(254)	44	(210)

4.23. Share-based payments

The Sodexho Alliance Board of Directors has granted share based payments to employees under a number of stock option plans.

4.23.1. Principal features of stock option plans**Vesting period**

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Rights under option plans granted after January 2003 vest in 25% tranches over a four-year period. The options have a contractual life of six years.

Options granted under the □B□ plans in January 2002, September 2002 and October 2002 vest four years after the date of grant and have a contractual life of six, five and five-and-a-half years respectively.

Options granted before January 2003 under □A□ plans vest four years after the date of grant and have a contractual life of five years.

Conditions for exercise

Half of the options granted in January 2001 were contingent on earnings per share for fiscal 2004, excluding exceptional items, of at least □1.98.

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

None of the other outstanding plans is contingent on performance targets.

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4.23.2. Valuation model and assumptions used**Estimation of fair value at date of grant**

The fair value of options granted and settled by delivery of equity instruments is estimated at the date of grant using a binomial model, taking account of the terms and conditions of grant and assumptions about exercise behavior.

As well as the exercise price of the stock option plans described in note 4.23.3., the table below shows the data used in the valuation model for each plan measured under IFRS 2:

Date of grant	Expected volatility (%)	Contractual life (years)	Risk-free interest rate (%)	Expected dividend yield (%)	Expected annual forfeiture (%)	Expected dividend growth (%)	Market risk premium (%)	Expected life (years)
January 27, 2003	36.89%	6	3.43%	2.70%	4.00%	7.80%	5%	5
June 12, 2003	37.99%	6	3.43%	2.70%	0.00%	7.80%	5%	5
January 20, 2004	35.25%	6	3.54%	2.67%	2.00%	7.80%	5%	5
January 18, 2005	33.57%	6	3.35%	3.18%	1.00%	6.45%	5%	5
June 16, 2005	32.20%	6	3.33%	4.10%	0.00%	13.66%	4.24%	5
September 13, 2005	31.95%	6	3.33%	3.75%	0.00%	13.66%	4.24%	5
January 10, 2006	31.64%	6	3.33%	3.03%	1.00%	13.66%	4.24%	5

The expected life of the options is based on historical data, and is not necessarily indicative of future exercises. The expected volatility is based on the assumption that volatility calculated using regression analysis of daily returns over the five-year period (the expected life of the options) prior to the date of grant, excluding the share price fluctuations of September 2002, is an indicator of future trends.

The assumptions about the exercise behavior of grantees used in determining the fair value of the options are given below (these assumptions are also based on historical data, which may not be indicative of future exercise behavior):

- Grantees resident in France for tax purposes:
 - 50% of grantees exercise once the share price exceeds 20% of the exercise price
 - 50% of grantees exercise once the share price exceeds 40% of the exercise price
- Grantees not resident in France for tax purposes:
 - 30% of grantees exercise once the share price exceeds 20% of the exercise price.
 - 30% of grantees exercise once the share price exceeds 40% of the exercise price.
 - 30% of grantees exercise once the share price exceeds 70% of the exercise price.
 - 10% of grantees exercise once the share price exceeds 100% of the exercise price.

4.23.3. Expense recognized and movements during fiscal 2006

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The stock option expense recognized in the fiscal 2006 income statement was \$7.8 million, compared with \$7.4 million in fiscal 2005. The table below provides the quantity, weighted average exercise price and movements of stock options during fiscal 2006 and fiscal 2005.

	August 31, 2006		August 31, 2005	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Outstanding at the beginning of the period	5,996,468 (1)	29.79	5,669,93 (2)	31.56
Granted during the period	977,452	34.78	1,030,000	23.16

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	August 31, 2006		August 31, 2005	
	Number	Weighted average exercise price (₹)	Number	Weighted average exercise price (₹)
Forfeited during the period	(292,091)	29.69	(310,222)	
Exercised during the period	(780,810) (3)	24.00	(171,946) (4)	24.05
Expired during the period	(140,829)	48.42	(220,657)	45.65
Outstanding at the end of the period	5,760,190	30.96	5,996,468	29.79
Exercisable at the end of the period	3,007,080	33.99	1,631,885	26.18

- 1) This balance includes 2,146,072 options not accounted for in accordance with IFRS 2 because either (i) they were granted before November 7, 2002 or (ii) they were granted after November 7, 2002 but vested prior to January 1, 2005. These include 22,500 options for which a supplemental expense was recognized due to the preferential status of some grantees. The remainder of these options have not been subsequently amended and hence are not required to be accounted for in accordance with IFRS 2.
- 2) This balance includes 2,553,290 options not accounted for in accordance with IFRS 2 because either (i) they were granted before November 7, 2002 or (ii) they were granted after November 7, 2002 but vested prior to January 1, 2005. These includes 22,500 options for which a supplemental expense was recognized when certain grantees obtained preferential status. The remainder of these options have not been subsequently amended and hence are not required to be accounted for in accordance with IFRS 2.
- 3) The weighted average share price at the exercise date of options exercised in the period was ₹36.3.
- 4) The weighted average share price at the exercise date of options exercised in the period was ₹27.7.

The weighted average residual life of options outstanding as of August 31, 2006 was 3 years (August 31, 2005: 3.4 years).

The weighted average fair value of options granted during the period was ₹8.86 (fiscal 2005: ₹5.54) .

The table below gives the exercise prices and exercise period for options outstanding as of August 31, 2006:

Date of grant	Start date of exercise period	Expiration date of exercise period	Exercise price	Number of options outstanding as of August 31, 2006
Jan-01	Mar-05	Jan-06	₹48.42	0
Jan-02	Jan-06	Jan-07	₹47.00	333,231
Jan-02	Jan-06	Jan-08	₹47.00	960,771
Sep-02	Apr-06	Mar-08	₹47.00	12,000
Oct-02	Oct-06	Oct-07	₹21.87	2,265
Jan-03	Jan-04	Jan-09	₹24.00	1,751,028
Jun-03	Jan-04	Jan-09	₹24.00	43,415
Jan-04	Jan-05	Jan-10	₹24.50	776,632
Jan-05	Jan-06	Jan-11	₹23.10	890,646
Jun-05	Jun-06	Jun-11	₹26.04	20,000
Sep-05	Sep-06	Sep-11	₹28.07	10,000
Jan-06	Jan-07	Jan-12	₹34.85	960,202

Total

5,760,190

4.23.4. Plans awarded following the acquisition of Sodexo Marriott Services

The Group committed to delivering 3,044,394 Sodexo Alliance shares to Sodexo, Inc. employees at an average price of \$29.01 per share under stock option plans granted in connection with the June 2001 acquisition of 53% of the capital of Sodexo Marriott Services, Inc.. As of August 31, 2006, 854,391 of these shares were still deliverable.

All these options are exercisable until April 2011.

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These plans are not recognized under IFRS 2 because they were granted prior to the effective date of IFRS 2 in November 2002 and because the rights under the plans vested prior to January 1, 2005.

The table below gives the quantity, weighted average exercise price and movements of these stock options during fiscal 2006 and fiscal 2005.

	August 31, 2006		August 31, 2005 including RSUs*		August 31, 2005 excluding RSUs*	
	Number	Weighted average exercise price (€)	Number	Weighted average exercise price (€)	Number	Weighted average exercise price (€)
Outstanding at the beginning of the period	1,565,122	28.95	2,168,641	27.30	2,103,993	28.14
Granted during the period	0	0	0	0	0	0.00
Forfeited during the period	(2,094)	23.59	(93,723)	29.59	(86,315)	32.13
Exercised during the period	(708,637(1))	29.47	(509,796)	21.83	(452,556(2))	24.59
Expired during the period	0	0	0	0	0	0
Outstanding at the end of the period	854,391	28.53	1,565,122	28.95	1,565,122	28.95
Exercisable at the end of the period	854,391	28.53	1,565,122	28.95	1,565,122	28.95

1) The weighted average share price at the exercise date of options exercised in the period was \$43.84.

2) The weighted average share price at the exercise date of options exercised in the period was \$31.63.

* RSUs (restrictive stock units) are stock options with an exercise price of zero. As of August 31, 2006, all RSUs had been exercised.

The table below provides the exercise price of options outstanding as of August 31, 2006:

Date of grant	Exercise price (\$)	Number of options outstanding as of August 31, 2006
November 6, 1997	30.01	42,630
June 8, 1998	38.82	196,674
September 22, 1998	37.81	4,221

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February 8, 1999	31.95	4,415
November 22, 1999	22.34	355,557
July 19, 2000	23.01	452
December 15, 2000	28.16	233,758
January 5, 2001	27.57	2,966
February 5, 2001	39.43	2,966
February 17, 2001	39.85	2,595
April 2, 2001	39.71	8,157
TOTAL		854,391

4.24. Business combinations

The principal acquisitions made by the Group during fiscal 2006 are described below:

- On February 13, 2006, the Group acquired a 55.45% interest in the Lido, a Paris cabaret, in line with its strategy of expansion into tourism and leisure activities in France, which include the Bateaux Parisiens river cruise activity, together with food service activities at racecourses, at the Rolland Garros complex, and at other public venues.

The price paid for the acquisition was ₹13.8 million, including ₹8.2 million in the form of a subscription to a share issue.

In 2005, the Lido generated revenues of ₹35 million over a 12-month period.

- On June 14, 2006, Luncheon Ticket acquired a group of companies in Argentina that includes Ticket Total Argentina, the country's third largest issuer of service vouchers. This acquisition extends the footprint of the Group's Service Vouchers and Cards activity in Argentina and Latin America.

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Luncheon Ticket paid a price of ARS 53.2 million (€14.3 million) for this acquisition.

Goodwill arising on these acquisitions was as follows:

	<u>Lido</u>	<u>Ticket Total</u>
Price paid	13.8	14.3
Share of fair value of net assets acquired	(0.5)	0.8
Goodwill	14.3	13.5

The fair value of the acquired assets and liabilities is currently being determined.

4.25. Commitments and contingencies

4.25.1. Sureties

In connection with the Service Vouchers and Cards activity, Sodexo Alliance and its subsidiaries pledged cash as security to various banks in 2005. No cash was still pledged as of August 31, 2006.

Other commitments arising from surety arrangements (pledges, charges secured against plant and equipment, and real estate mortgages) contracted by Sodexo Alliance and its subsidiaries in connection with operating activities during fiscal 2006 were not material.

4.25.2. Operating lease commitments

Outstanding commitments over the residual term of operating leases as of August 31, 2006 were as follows:

- Less than 1 year: €107 million
- 1 to 5 years: €182 million
- More than 5 years: €26 million

These commitments arise under a large number of contracts worldwide and mainly relate to:

- office space (€174 million);
- site equipment, office equipment and vehicles (€129 million).

The terms of these leases are negotiated locally.

4.25.3. Other commitments given

<u>August 31, 2006</u>			<u>August 31, 2005</u>	
<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>	<u>Total</u>

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	(in millions of euro)				
Financial guarantees to third parties	102	22	5	129	160
Performance bonds on operating leases	16	14	4	34	27
Performance bonds given to clients	13	0	79	92	16
Other commitments	23	3	0	26	7
	<u>154</u>	<u>39</u>	<u>88</u>	<u>281</u>	<u>210</u>
TOTAL	154	39	88	281	210

Financial guarantees to third parties mainly comprise bank guarantees made by Sodexho, Inc. totaling €89.6 million, and subordinated debt commitments under public private partnership (PPP) contracts (see note 2.3.2.) totaling €33.9 million.

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Performance bonds given to clients are subject to regular review by the management at operating entity level. A provision is recorded as soon as payment under a performance bond becomes probable.

The increase in these performance bonds during the period reflects the growing number of PPP contracts signed in the United Kingdom.

The increase in other commitments is due mainly to a €19 million bank guarantee given to the Brazilian courts in connection with the Bancos Do Santos litigation (see note 4.28) .

The Group has commitments to provide training hours to its employees in France, known as Individual Training Rights. In the absence of guidance from regulatory authorities on the accounting treatment for these rights, the Group has opted to present these rights as a commitment. Based on available information, the number of hours to be provided to employees of French subsidiaries is estimated to be approximately 667,000.

The Group has performance obligations to clients, but regards these as having the essential features of a performance bond rather than an insurance contract designed to compensate the client in the event of non-fulfillment of the service obligation (compensation is generally due only where the Group is unable to provide alternative or additional resources to fulfill the obligation to the client).

In practice, given its size and geographical reach, the Group considers itself capable of providing the additional resources needed to avoid paying compensation to clients protected by such clauses.

As of August 31, 2006, no provision has been established in the balance sheet with respect to these guarantees.

4.26. Related parties

4.26.1. Compensation, loans, post-employment benefits and other employee benefits granted to Board members, to the Executive Committee, and to the CEO of Sodexo Alliance

	August 31, 2006
	In euro
Short-term employee benefits	8,383,512
Post-employment benefits	167,675
Other long-term employee benefits	0
Termination benefits	0
Stock option expense	1,890,548
Total	10,441,735

These benefits include directors' fees, and all forms of compensation and benefits paid (or earned during the period for offices held) by Bellon SA, Sodexo Alliance and/or other Sodexo Group companies.

4.26.2. Related companies

Subsidiaries

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Sodexo Alliance received fees totaling \$95 million from its subsidiaries during fiscal 2006 for management and co-ordination services.

Other companies

Dealings with other related companies comprise loans advanced, commercial transactions, and off balance sheet commitments involving associates and non-consolidated companies.

Loans	Gross value as of August 31, 2006	Impairment as of August 31, 2006	Carrying amount as of August 31, 2006	Carrying amount as of August 31, 2005
Associates	25	0	25	21

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Loans	Gross value as of August 31, 2006	Impairment as of August 31, 2006	Carrying amount as of August 31, 2006	Carrying amount as of August 31, 2005
Non-consolidated companies	1	(1)	0	1
Off balance sheet commitments			August 31, 2006	August 31, 2005
Commitments to third parties				
Associates			34	32
Non-consolidated companies			0	0
Performance bonds given to clients				
Associates			53	13
Non-consolidated companies			0	0
Revenues generated				Fiscal 2006
Associates				116
Non-consolidated companies				2
Operating expenses recognized				
Associates				1
Non-consolidated companies				0
Net financing costs				
Associates				0
Non-consolidated companies				0

Main shareholder

As of August 31, 2006, Bellon SA held 36.83% of the capital of Sodexo Alliance.

During fiscal 2006, Bellon SA invoiced Sodexo Alliance a total of €4.8 million for assistance and advisory services under a contract between the two companies.

During the first half of fiscal 2006, the Annual Shareholders' Meeting of Sodexo Alliance approved the payment of a dividend of €0.75 per share. Consequently, Bellon SA received a dividend payment of €43.9 million in March 2006.

4.27. Group employees

As of August 31, 2006, Group employees comprised:

	August 31, 2006
Executives, middle management, site managers & supervisory staff	41,596
Front-line service staff and other employees	290,500

Total

332,096

Group employees by activity and region were as follows:

Food and Facilities Management Services (FFMS)

	FFMS North America	FFMS Continental Europe	FFMS United Kingdom and Ireland	FFMS Rest of the world	Total FFMS	Service Vouchers and Cards	Holding Companies	Total
Total	121,981	87,841	39,028	79,817	328,667	3,148	281	332,096

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4.28. Litigation

McReynolds v. Sodexho Marriott Services, Inc.

On April 27, 2005, Sodexho, Inc. agreed to settle a class action lawsuit brought in the United States in order to avoid protracted legal proceedings and without admitting any liability. The judge approved the settlement on August 10, 2005. Under the terms of the settlement, Sodexho, Inc. committed to make monetary payments to eligible class members and to the class attorneys for a total amount of up to \$80 million, as well as to continue to promote its diversity programs. As of August 31, 2006 all amounts had been paid to the class members and to the class lawyers.

Sodexho Pass do Brazil

Following an investigation into the financial condition of Banco Santos by the intervener representing the Central Bank of Brazil, Sodexho Pass do Brazil is in dispute with Banco Santos and a mutual fund concerning the existence of bank balances totaling \$19 million in principal, based on current exchange rates. Sodexho Pass do Brazil, Banco Santos and the mutual fund have all commenced legal proceedings against one another in this matter. Sodexho Pass do Brazil vigorously denies that it owes any amounts in connection with these balances.

Other litigation

The Group is involved in other litigation arising from its ordinary activities. We do not believe that liabilities relating to such litigation will in aggregate be material to our activities or to our financial position.

4.29. Subsequent events

No significant events have occurred since August 31, 2006.

5. Financial risk management objectives and policy

5.1. Foreign exchange and interest rate risk

Because the Group has operations in 80 countries, all components of the financial statements are inevitably influenced by foreign currency translation effects, and in particular by fluctuations in the U.S. dollar. However, exchange rate fluctuations do not generate any operational risk, because each of our subsidiaries bills its revenues and incurs its expenses in the same currency.

Sodexho Alliance uses derivative instruments to manage the Group's exposure to interest rate and foreign exchange rate risk.

The Board of Directors, the Chief Executive Officer and the Chief Financial Officer have approved policies designed to prevent speculative positions. Under these policies:

- Substantially all borrowings must be at fixed rates of interest, or converted to fixed-rate using hedging instruments.
- Foreign exchange risk on loans to subsidiaries must be hedged.
- Counterparty risk must be managed and spread. Transactions may only be contracted with counterparties that have an AFB master agreement or equivalent (ISDA) in place with the Group company involved.
- The maturity of hedging instruments must not exceed the maturity of the borrowings they hedge.

Analysis of sensitivity to interest rates

(in millions of euro)	Note	Less than 1 year	1 to 5 years	Over 5 years
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial liabilities (including derivatives)	1	523	1,341	16

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(in millions of euro)	Note	Less than 1 year	1 to 5 years	Over 5 years
Cash and cash equivalents		1,006	0	0
Net renewable position	2	(483)	1,341	16
Net position renewable within less than 1 year		(483)		
Increase of 1% in short-term interest rate	3	1%		
Average term	1.0	year		
Cumulative effect of 1% increase in short-term interest rate	4	(5)		
Net interest expense paid during fiscal 2006		95		
Cumulative effect as % of net interest expense for fiscal 2006		(5)%		

- 1) The maturity of variable-rate liabilities is deemed to be the period to the next interest rate adjustment date. Consequently, the €523 million in the "Less than 1 year" column includes variable-rate borrowings due after more than one year which are subject to an interest adjustment within 12 months.
- 2) A negative amount indicates a net asset.
- 3) This 100 basis point increase has been assumed to have an identical effect across all currencies used by the Group for financing.
- 4) A negative amount indicates income.

Estimate of risk of loss on the net foreign currency position in the event of a uniform unfavorable movement of ±0.01 against all currencies listed

	USD	GBP	Other foreign currencies
Closing rate	0.77815	1.483454	
Monetary assets			
Working capital items	455	85	687
Other receivables	1	0	13
Deferred tax assets	161	45	13
Cash and cash equivalents	146	112	439
Total monetary assets	763	242	1,152
Monetary liabilities			
Financial liabilities	588	125	54
Working capital items	847	447	1,015
Other liabilities	26	41	33
Deferred tax liabilities	32	4	12
Total monetary liabilities	1,493	617	1,114

Net position	(730)	(375)	38
Impact of ₹0.01 movement in exchange rate	(9)	(3)	immaterial
	<hr/>	<hr/>	<hr/>

Analysis of sensitivity to exchange rates

A 10% movement in the US dollar against the euro would have an effect of:

- ₹536 million on full-year consolidated revenues
- ₹23 million on full-year consolidated operating profit
- ₹13 million on full-year net profit attributable to equity holders of the parent

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A 10% movement in sterling against the euro would have an effect of:

- €143 million on full-year consolidated revenues
- €3 million on full-year consolidated operating profit
- €2.5 million on full-year net profit attributable to equity holders of the parent

5.2. Liquidity risk

The new credit facility negotiated by the Group in April 2005 offered better financial terms and longer maturities, and resulted in the lifting of the financial covenants under which the Group was required to comply with various financial ratios.

6. Transition to IFRS

Reconciliations between the consolidated financial statements prepared under French generally accepted accounting principles (French GAAP) and those prepared under IFRS as of September 1, 2004 and August 31, 2005 were published in the notes to the consolidated financial statements for the six months ended February 28, 2006.

The tables and discussion below take into account our final conclusions as to client investments and some minor changes made since that initial publication of the half-year financial statements as and for the six-months ended February 28, 2006.

6.1. Elective treatments relating to first-time adoption of IFRS as of September 1, 2004

The Group applied the following elective treatments on first-time adoption of IFRS, as permitted by IFRS 1.

• Property, plant and equipment and intangible assets (IAS 16 and IAS 38)

The Group elected not to use the option available under IFRS 1 of remeasuring property, plant and equipment and intangible assets at fair value in the opening balance sheet as of September 1, 2004. Consequently, the Group adopted the amortized historical cost method for measurement of property, plant and equipment and intangible assets subsequent to initial recognition, and applied this treatment retrospectively to all its assets.

Property, plant and equipment were restated at September 1, 2004, after taking account of estimated final residual values and a specific depreciation period for each component of the relevant asset. The difference between the carrying amount under French GAAP and under IFRS was recorded in consolidated shareholders' equity. This restatement was not material.

• Business combinations

Business combinations effected prior to September 1, 2004 (date of first-time application of IFRS) were not restated retrospectively, as allowed under IFRS 3.

• Recognition of goodwill in the currency of the acquired entity

In preparing the opening IFRS balance sheet, the Group elected to apply the amended IAS 21, under which goodwill is treated as an asset of the acquired entity and consequently is accounted for in the subsidiary's functional currency. Goodwill which under French GAAP was expressed in a currency other than the acquired entity's functional currency was therefore translated into the acquired entity's local currency using the exchange

rate as of the acquisition date. Goodwill arising on acquisitions made on or after September 1, 2004 is accounted for in the currency of the acquired entity.

- ***Translation reserve***

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The existing currency translation reserve as of September 1, 2004 under French GAAP was reclassified to consolidated reserves, as permitted by IFRS 1. This reclassification had no impact on consolidated shareholders' equity.

● **Stock options**

In accordance with the transitional provisions of IFRS 2, the Group elected to restrict the application of IFRS 2 to stock option plans granted after November 7, 2002 and not fully vested as of January 1, 2005. Application of IFRS 2 and of this elective treatment had no effect on shareholders' equity as of September 1, 2004, except for the treatment of the liability relating to stock option obligations resulting from the buyout of the minority interests in Sodexo, Inc.

● **Post-employment benefits**

As permitted under IFRS 1, the Group elected to recognize all accumulated actuarial gains and losses arising on retirement and other long-term employee benefits as of September 1, 2004 in consolidated shareholders' equity. The same treatment was applied in preparing the French GAAP consolidated financial statements for fiscal 2005 (see note 2.3 to the consolidated financial statements as of August 31, 2005). The Group elected to early adopt the amended IAS 19 effective August 31, 2005, and to recognize actuarial gains and losses arising in each period directly in shareholders' equity.

● **Financial instruments**

The Group elected for early recognition, effective September 1, 2004, of the impact of IAS 39 and IAS 32 on financial instruments.

6.2. Principal impact of the IFRS transition of the consolidated statement of cash flows

The principal impacts on the consolidated statement of cash flows are:

Change in financial assets and restricted cash related to the Service Vouchers and Cards activity; these assets were accounted for as cash and cash equivalents in French GAAP. For IFRS they are included in working capital;

Treasury shares were considered marketable securities in French GAAP and included in cash and cash equivalents. For IFRS, they reduce shareholder's equity;

Bank overdrafts were included in financial debt in French GAAP. For IFRS they reduce cash and cash equivalents.

6.3. Reconciliation of shareholders' equity

The main impacts of the transition to IFRS are presented below.

Shareholders equity as of September 1, 2004

(in millions of euro)	Final IFRS adjustments		
	Group	Minority Interests	Total
Shareholders Equity as of September 1, 2004 □ French GAAP	2,088	25	2,113
Recognition of goodwill in the currency of the acquired entity	(99)	0	(99)
Treasury shares and stock option expenses	(28)	0	(28)
Financial Instruments (IAS32-IAS39)	(11)	(1)	(12)
Capitalization of capital leases (IAS 17)	(9)	0	(9)
Definition and evaluation of intangible assets (IAS 36-IAS38)	(21)	0	(21)
Provisions (IAS37)	3	(0)	3
Actuarial gains/(losses) on employee benefits (IAS 19 revised)	0	0	0
Other	11	0	11
Deferred tax impact of the above	2	0	2
Total impact of the transition to IFRS	(152)	(1)	(153)
Shareholders equity as of September 1, 2004 in IFRS	1,936	24	1,960

Shareholders equity as of August 31, 2005

(in millions of euro)	IFRS adjustments		
	Group	Minority interests	Total
Shareholders Equity as of September 1, 2005 □ French GAAP	2,136	20	2,156
Recognition of goodwill in the currency of the acquired entity	(32)	0	(32)
Treasury shares and stock option expenses	(38)	(0)	(38)
Financial Instruments (IAS32-IAS39)	4	(1)	3
Capitalization of capital leases (IAS 17)	(8)	0	(8)
Definition and evaluation of intangible assets (IAS 36-IAS38)	(18)	0	(18)
Provisions (IAS37)	3	0	3
Actuarial gains/(losses) on employee benefits (IAS 19 revised)	11	0	11
Other	15	(1)	14
Deferred tax impact of the above	(13)	0	(13)
Total impact of the transition to IFRS	(76)	(2)	(78)
Shareholders equity as of September 1, 2005 in IFRS	2,060,	18	2,078

6.4. Balance sheet reconciliation**Opening balance sheet as of September 1, 2004**

(in millions of euro)	Balance sheet in French GAAP in IFRS format after change in accounting principle	Impact of first-time adoption	Balance sheet under IFRS as of September 1, 2004
ASSETS			
Non-current assets			
Property, plant and equipment	362	49	411
Goodwill	1,394	2,332	3,726
Other intangible assets	2,519	(2,414)	105
Client investments	0	120	120
Associates	14	2	16
Financial assets	60	12	72
Other non-current assets	17	0	17
Deferred tax assets	149	40	189
Total non-current assets	4,515	141	4,656
Current assets			
Financial assets	6	2	8
Derivative financial instruments	0	38	38
Inventories	163	(1)	162
Income tax	56	0	56
Trade and other receivables	1,589	50	1,639
Prepaid expenses and other assets	162	(162)	0
Marketable securities	536	(536)	0
Restricted cash	168	(168)	0
Restricted cash and financial assets: Service Vouchers and Cards activity	0	337	337
Cash and cash equivalents	505	277	782
Total current assets	3,185	(163)	3,022
TOTAL ASSETS	7,700	(22)	7,678
LIABILITIES			
Equity attributable to equity holders of the parent	2,088	(152)	1,936
Equity attributable to minority interest	25	(1)	24
Total shareholders' equity	2,113	(153)	1,960

Explanation of Responses:

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Non-current liabilities			
Borrowings	1,755	29	1,784
Employee benefits	311	0	311
Other non-current liabilities	89	(39)	50
Provisions	64	(9)	55
Deferred tax liabilities	20	39	59
Total non-current liabilities	2,239	20	2,259
Current liabilities			
Bank overdrafts	23	0	23

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(in millions of euro)	Balance sheet in French GAAP in IFRS format after change in accounting principle	Impact of first-time adoption	Balance sheet under IFRS as of September 1, 2004
Borrowings	349	88	437
Derivative financial instruments	0	9	9
Income tax	105	(1)	104
Provisions	28	(3)	25
Trade and other payables	2,000	17	2,017
Vouchers payable	843	1	844
Other liabilities	0	0	
Total current liabilities	3,348	111	3,459
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7,700	(22)	7,678

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Balance sheet as of August 31, 2005

(in millions of euro)	Balance sheet in French GAAP in IFRS format after change in accounting principle	Impact of first-time adoption	Balance sheet under IFRS as of August 31, 2005
ASSETS			
Non-current assets			
Property, plant and equipment	365	41	406
Goodwill	1,338	2,367	3,705
Other intangible assets	2,476	(2,389)	87
Client investments	0	138	138
Associates	25	7	32
Financial assets	71	3	74
Other non-current assets	18	0	18
Deferred tax assets	197	28	225
Total non-current assets	4,490	195	4,685
Current assets			
Financial assets	6	1	7
Derivative financial instruments	0	40	40
Inventories	177	(1)	176
Income tax	19	0	19
Trade and other receivables	1,743	7	1,750
Prepaid expenses and other assets	169	(169)	0
Marketable securities	647	(647)	0
Restricted cash	206	(206)	0
Restricted cash and financial assets: Service Vouchers and Cards activity	0	326	326
Cash and cash equivalents	513	436	949
Total current assets	3,480	(213)	3,267
TOTAL ASSETS	7,970	(18)	7,952
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity attributable to equity holders of the parent			
Equity attributable to minority interest	2,136	(76)	2,060
	20	(2)	18
Total shareholders' equity	2,156	(78)	2,078
Non-current liabilities			
Borrowings	1,886	5	1,891

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Employee benefits	319	(10)	309
Other non-current liabilities	117	(37)	80
Provisions	69	(16)	53
Deferred tax liabilities	13	41	54
	<hr/>	<hr/>	<hr/>
Total non-current liabilities	2,404	(17)	2,387
Current liabilities			
Bank overdrafts	21	0	21
Borrowings	33	52	85
Derivative financial instruments	0	2	2
Income tax	82	2	84
Provisions	99	(2)	97
Trade and other payables	2,175	22	2,197

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(in millions of euro)	Balance sheet in French GAAP in IFRS format after change in accounting principle	Impact of first-time adoption	Balance sheet under IFRS as of August 31, 2005
Vouchers payable	1,000	1	1,001
Other liabilities	0	0	
Total current liabilities	3,410	77	3,487
TOTAL LIABILITIES AND EQUITY	7,970	(18)	7,952

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6.5. Income statement reconciliation**Income statement for the year ended August 31, 2005**

	Fiscal 2005 under French GAAP in IFRS format after change in accounting principle	First time adoption impact	Fiscal 2005 under FRS
Revenue	11,672	21	11,693
Cost of sales	(10,023)	(10)	(10,033)
Gross profit	1,649	11	1,660
Sales department costs	(141)	0	(141)
General and administrative costs	(999)	(3)	(1,002)
Other operating income and expenses, net	(65)	(2)	(67)
<i>Expenses by nature</i>	<i>0</i>	<i>0</i>	<i>0</i>
Operating profit before financing costs	444	6	450
Net financing costs	(114)	2	(112)
Share of profit of associates	0	(6)	(6)
<i>Exceptional (expense) income, net</i>	<i>0</i>	<i>0</i>	<i>0</i>
Profit before tax	330	2	332
Income tax expense	(101)	(10)	(111)
Result from discontinued operations, net of tax	0	0	0
<i>Goodwill amortisation</i>	<i>(60)</i>	<i>60</i>	<i>0</i>
Profit for the period	170	52	221
Profit attributable to minority interests	10	(1)	9
Profit attributable to equity holders of the parent	159	53	212

7. Scope of consolidation

The first and second columns in the table below present the percentage interest and percentage of voting rights, respectively, held by the Group. Percentage interests and percentages of voting rights are only presented if less than 97%.

Companies newly consolidated during fiscal 2006 are indicated by the letter N.

Associates (companies accounted for by the equity method) are indicated by the letters EM. All other companies are fully consolidated.

The principal activity of each company is indicated by the following abbreviations:

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- FFMS: Food and Facilities Management Services
- SVC: Service Vouchers and Cards
- HOL: Holding Company

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	<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
France				
SOCIETE FRANCAISE DE RESTAURATION (sub-group)			FFMS	France
ALTYS MULTISERVICE			FFMS	France
ALTYS GESTION			FFMS	France
SOCIÉTÉ FRANÇAISE DE SERVICES			FFMS	France
SOCIETE FRANÇAISE DE RESTAURATION ET SERVICES (sub-group)			FFMS	France
SODEQUIP			FFMS	France
CEJI			FFMS	France
SODEXHO PRESTIGE			FFMS	France
N LIDO SEGSMHI	55%	55%	FFMS	France
SIR			FFMS	France
CIR			FFMS	France
SIGES			FFMS	France
LA NORMANDE SA			FFMS	France
HEDELREST			FFMS	France
RGC			FFMS	France
SAGERE			FFMS	France
SOGERES (sub-group)			FFMS	France
BATEAUX PARISIENS (sub-group)			FFMS	France
ARMEMENT LEBERT BUISSON			FFMS	France
SOCIETE DES THERMES DE NEYRAC-LES- BAINS			FFMS	France
EMIS			FFMS	France
CATESCO			FFMS	France
SODEXHO CHEQUES ET CARTES DE SERVICES			SVC	France
SODEXHO PASS INTERNATIONAL			HOL	France
SODEXHO FRANCE			HOL	France
UNIVERSAL SODEXHO SAS			HOL	France
SOFINSOD			HOL	France
ETINBIS			HOL	France
ETIN			HOL	France
GARDNER MERCHANT GROUPE			HOL	France
LOISIRS DÉVELOPPEMENT			HOL	France
SODEXHO ALTYS			HOL	France
ASTILBE			HOL	France
HOLDING SOGERES			HOL	France
SODEXHO AMÉRIQUE DU SUD			HOL	France
SODEXHO MANAGEMENT			HOL	France
SODEXHO EUROPE CONTINENTALE			HOL	France
SODEXHO ASIE OCÉANIE			HOL	France
N SODEXHO GRANDE CHINE			HOL	France
SODEXHO IS & T			HOL	France

SIGES GUYANE

FFMS

France

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	<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
SOCIETE HOTELIERE ET DE TOURISME DE GUYANE			FFMS	France
SODEXHO NET			FFMS	France
GUYANE PROPRES			FFMS	France
SODEXHO GUYANE			FFMS	France
SOCIETE GUYANAISE DE PROTECTION ET GARDIENNAGE			FFMS	France
SODEXHO ANTILLES			FFMS	France

	<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
--	-------------------	------------------------	---------------------------	----------------

Americas

			FFMS	United States
			FFMS	Canada
	49%	49%	FFMS	United States
			HOL	United States
			FFMS	United States
			HOL	United States
			SVC	United States
			FFMS	United States
			FFMS	Venezuela
			FFMS	Venezuela
			FFMS	Brazil
			FFMS	Brazil
			FFMS	Argentina
	65%	65%	FFMS	Colombia
	70%	70%	FFMS	Venezuela
			FFMS	Costa Rica
			FFMS	Mexico
EM	50%	50%	FFMS	United States
			FFMS	Peru
EM	33%	33%	FFMS	Chile
EM	33%	33%	FFMS	Chile
			FFMS	Chile
			FFMS	Chile
			FFMS	Mexico
			SVC	Brazil
			SVC	Brazil
			SVC	Brazil
			SVC	Chile

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	SODEXHO PASS VENEZUELA	64%	64% SVC	Venezuela
	SODEXHO PASS DE COLOMBIA	51%	51% SVC	Colombia
	SODEXHO PASS PERU		SVC	Peru
	SODEXHO PASS DE PANAMA	51%	51% SVC	Panama
	LUNCHEON TICKETS		SVC	Argentina
N	TICKET TOTAL ARGENTINA		SVC	Argentina
N	ANGEL LENO		SVC	Argentina
N	TICKET TOTAL URUGUAY		SVC	Uruguay

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	<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
Americas				
			SVC	Mexico
			SVC	Mexico
	<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
Africa				
			FFMS	France
			FFMS	France
			FFMS	Nigeria
	90%	90%	FFMS	Gabon
			FFMS	Angola
			FFMS	Tunisia
			FFMS	Benin
			FFMS	Chad
	90%	90%	FFMS	Ghana
	77%	77%	SVC	Tunisia
			FFMS	Morocco
	70%	70%	FFMS	Eq. Guinea
	70%	70%	FFMS	Cameroon
			FFMS	Congo
	55%	55%	FFMS	South Africa
			HOL	South Africa
N	75%	75%	FFMS	Libya
N			FFMS	Madagascar
			FFMS	Tanzania
	<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
Europe				
			FFMS	Belgium
			FFMS	Belgium
			FFMS	Switzerland
			FFMS	Switzerland
			FFMS	Germany
			FFMS	Austria
			FFMS	Czech Republic
			FFMS	Luxembourg
			FFMS	Italy
			FFMS	Slovenia
			FFMS	Finland

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	ABRA NORDIC VENDING OY			FFMS	Finland
N, EM	ARANDUR OY	33%	33%	FFMS	Finland
	SODEXHO SCANDINAVIAN HOLDING (sub- group)			FFMS	Sweden
	SODEXHO ESPANA (sub-group)			FFMS	Spain
N	ALTYS MULTISERVICIOS	79%	79%	FFMS	Spain
	SODEXHO PORTUGAL II RESTAURACAO E SERVICOS			FFMS	Portugal
	SODEXHO BLENHOLD	69%	69%	FFMS	Portugal

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		<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
Europe					
	SODEXHO HELLAS	59%	59%	FFMS	Greece
	SODEXHO CATERING & SERVICES GMBH (sub-group)			FFMS	Germany
	SODEXHO SCS GMBH (sub-group)			FFMS	Germany
	PLAUEN MENU	90%		FFMS	Germany
	BARENMENU			FFMS	Germany
N	SODAB			FFMS	Germany
N	KÄNNE CATERING-SERVICE GMBH			FFMS	Germany
	SODEXHO AO			FFMS	Russia
	SODEXHO EUROASIA			FFMS	Russia
N	SODEXHO PASS CIS			SVC	Russia
	SODEXHO SPOLECNE STRAVOVANI A SLUZBY			FFMS	Czech Republic
	SODEXHO - SKOLNI JIDELNY			FFMS	Czech Republic
	SODEXHO SPOLOCNE STRAVOVANIE A SLUZBY			FFMS	Slovakia
	SODEXHO MAGYARORSZAG			FFMS	Hungary
	ZONA VENDEGLATO			FFMS	Hungary
	SODEXHO TOPLU YEMEK			FFMS	Turkey
	SODEXHO POLSKA			FFMS	Poland
	SODEXHO CATERING & SERVICES GMBH			FFMS	Austria
EM	AGECROFT PRISON MANAGEMENT	50%	50%	FFMS	United Kingdom
	SODEXHO SERVICES GROUP			HOL	United Kingdom
	KINGS COLLEGE HOSPITAL (HOLDINGS) LTD	25%	25%	FFMS	United Kingdom
	SODEXHO INTERNATIONAL HOLDINGS			HOL	United Kingdom
	KEYLINE TRAVEL MANAGEMENT			FFMS	United Kingdom
	SODEXHO LTD			FFMS	United Kingdom
	SODEXHO PRESTIGE LTD (sub-group)			FFMS	United Kingdom
	UNIVERSAL SODEXHO SCOTLAND			FFMS	United Kingdom
	HARMONDSWORTH DETENTION SERVICES	51%	51%	FFMS	United Kingdom
	KALYX			FFMS	United Kingdom
	CATALYST HEALTHCARE (ROMFORD) HOLDINGS LTD	25%	25%	FFMS	United Kingdom
EM	CATALYST HEALTHCARE (ROEHAMPTON) HOLDINGS LTD	25%	25%	FFMS	United Kingdom
EM	TILLERY VALLEY FOODS			FFMS	United Kingdom
	RUGBY HOSPITALITY 2003	55%	55%	FFMS	United Kingdom
	SODEXHO DEFENCE SERVICES			FFMS	United Kingdom
	SODEXHO LAND TECHNOLOGY			FFMS	United Kingdom
	SODEXHO INVESTMENTS SERVICES			FFMS	United Kingdom
	PETERBOROUGH PRISON MANAGEMENT HOLDINGS LTD	33%	33%	FFMS	United Kingdom

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EM	ASHFORD PRISON SERVICES HOLDINGS LTD	33%	33%	FFMS	United Kingdom
	SODEXHO HOLDINGS			HOL	United Kingdom
	SODEXHO EDUCATION SERVICES			FFMS	United Kingdom
	SODEXHO MANAGEMENT SERVICES (sub-group)			FFMS	United Kingdom
	SODEXHO HEALTHCARE SERVICES			FFMS	United Kingdom
	SODEXHO SUPPORT SERVICES			HOL	United Kingdom

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		<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
Europe	UNIVERSAL SODEXHO HOLDINGS			HOL	United Kingdom
	CATALYST HEALTHCARE (MANCHESTER)				
EM	HOLDINGS LTD	25%	25%	HOL	United Kingdom
	UNIVERSAL SERVICES EUROPE			HOL	United Kingdom
	PRIMARY MANAGEMENT ALDERSHOT	60%	60%	FFMS	United Kingdom
EM	MERCIA HEALTHCARE (HOLDINGS) LTD	25%	25%	FFMS	United Kingdom
	SOUTH MANCHESTER HEALTHCARE				
EM	(HOLDINGS) LTD	25%	25%	FFMS	United Kingdom
	RUGBY TRAVEL & HOSPITALITY□07	80%	80%	FFMS	United Kingdom
EM	RMPA HOLDINGS LTD	14%	14%	FFMS	United Kingdom
	PINNACLE SCHOOL (FIFE) HOLDINGS				
EM	LTD	10%	10%	FFMS	United Kingdom
	ENTERPRISE CIVIC BUILDINGS				
EM	HOLDINGS LTD	10%	10%	FFMS	United Kingdom
	ENTERPRISE EDUCATION HOLDINGS				
EM	CONWY LTD	10%	10%	FFMS	United Kingdom
	ENTERPRISE HEALTHCARE HOLDINGS				
EM	LTD	10%	10%	FFMS	United Kingdom
	KEYLINE TRAVEL SCOTLAND			FFMS	United Kingdom
	BROOKES OUTSIDE			FFMS	United Kingdom
	PRIMARY MANAGEMENT LTD			FFMS	United Kingdom
	GENESIS FACILITIES MANAGEMENT			FFMS	United Kingdom
	VENDABILITY			FFMS	United Kingdom
	KELVIN MANAGEMENT			FFMS	United Kingdom
	INSTITUTION SUPPLIES LEEDS LTD			FFMS	United Kingdom
	KS BUILDING SERVICES			FFMS	United Kingdom
	RIVER RIDE LTD			FFMS	United Kingdom
	RIVERCRAFT			FFMS	United Kingdom
	REGALIA			FFMS	United Kingdom
N, EM	ES 2005 LTD	50%	50%	FFMS	United Kingdom
N, EM	ADDIEWELL PRISON (HOLDINGS) LTD	33%	33%	FFMS	United Kingdom
	SODEXHO HOLDI			HOL	Ireland
	SODEXHO IRELAND LTD			FFMS	Ireland
	UNIVERSAL SODEXHO NORWAY			FFMS	Norway
	UNIVERSAL SODEXHO THE				
	NETHERLANDS			FFMS	Netherlands
	UNIVERSAL SODEXHO KAZAKHSTAN LTD			FFMS	Denmark
	UNIVERSAL SERVICES EUROPE			FFMS	Iceland
	SODEXHO NEDERLAND BV (sub-group)			FFMS	Netherlands
	SODEXHO PASS LUXEMBOURG			SVC	Luxembourg
	SODEXHO PASS BELGIQUE (sub-group)			SVC	Belgium
	SODEXHO PASS GMBH			SVC	Germany
	SODEXHO CARD SERVICES GMBH			SVC	Germany
	SODEXHO PASS SRL (sub-group)			SVC	Italy

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SODEXHO PASS ESPANA	SVC	Spain
TICKET MENU	SVC	Spain
SODEXHO PASS AUSTRIA	SVC	Austria
SODEXHO PASS LIMITED	SVC	United Kingdom
SODEXHO PASS HUNGARIA	SVC	Hungary
SODEXHO PASS BULGARIA	SVC	Bulgaria
SODEXHO PASS CESKA REPUBLIKA	SVC	Czech Republic
SODEXHO PASS SLOVAK REPUBLIC	SVC	Slovakia

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	<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
Europe				
			SVC	Netherlands
			SVC	Poland
	90%	90%	SVC	Turkey
	45%	50%	SVC	Turkey
			SVC	Romania
N			SVC	Romania
			FFMS	United Kingdom
			HOL	Belgium
	<u>% interest</u>	<u>% voting rights</u>	<u>Principal activity</u>	<u>Country</u>
Asia, Australasia, Middle East				
				United Arab Emirates
	49%	49%	FFMS	Emirates
	49%	49%	FFMS	Qatar
	60%	60%	FFMS	France
	54%	54%	FFMS	France
N	60%		FFMS	France
			FFMS	France
N	65%	65%	FFMS	France
			FFMS	France
			FFMS	Singapore
			FFMS	Malaysia
			FFMS	Hong Kong
EM	26%	26%	FFMS	Thailand
			FFMS	Korea
			FFMS	United Kingdom
			FFMS	Australia
EM	50%	50%	FFMS	Australia
N			FFMS	Australia
			FFMS	Singapore
			FFMS	Indonesia
			FFMS	Australia
			FFMS	Australia
EM	50%	50%	FFMS	Australia
			FFMS	Australia
			FFMS	New Zealand

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	UNIVERSAL SODEXHO PTY LTD			FFMS	Australia
	SODEXHO TIANJIN SERVICE MANAGEMENT COMPANY LTD			FFMS	China
	SODEXHO SHANGHAI MANAGEMENT SERVICES			FFMS	China
	SODEXHO SERVICES COMPANY LTD SHANGHAI			FFMS	China
EM	SHANGHAI SAIC SODEXHO SERVICES	49%	49%	FFMS	China

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(d) Pensions and postretirement benefits	(12)	(14)
(e) Discounting of liabilities	(9)	(4)
(g) Deferred income tax effect	34	27
	<hr/>	<hr/>
Total U.S. GAAP adjustments	(83)	(66)
	<hr/>	<hr/>
Net income, as determined under U.S. GAAP	250	155
	<hr/>	<hr/>
Earnings per share, as determined under U.S. GAAP		
(h) Basic earnings per share	1.60	0.99
(h) Diluted earnings per share	1.59	0.99

(1) Refer to note 8.3 for explanations

8.2 Reconciliation of shareholders' equity in IFRS to shareholders' equity in U. S. GAAP

	August 31,	
	2006	2005
	(millions of euro)	
Shareholders' equity, as reported in the balance sheet in IFRS	2,173	2,078
U.S. GAAP adjustments:(1)		
(a) Minority interest	(17)	(18)
(b) Business combinations	(320)	(226)
(d) Pensions and postretirement benefits	41	38
(e) Discounting of liabilities	(26)	(18)
(g) Deferred income tax effects	(232)	(268)
	<hr/>	<hr/>
Total U.S. GAAP adjustments	(554)	(492)
	<hr/>	<hr/>
Shareholders' equity, as determined under U.S. GAAP	1,619	1,586
	<hr/>	<hr/>

(1) Refer to note 8.3 for explanations

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8.3 Notes to reconciliation to U.S. GAAP of net income and shareholders' equity**(a) Minority interest**

Under IFRS, minority interest is included in profit for the period, and as a component of shareholders' equity. Under U.S. GAAP, net income is after reduction of minority interest and shareholders' equity excludes minority interest.

(b) Business combinations

Business combinations effected prior to September 1, 2004 (date of first-time application IFRS) were not restated retrospectively with respect to IFRS 3. As such, for acquisitions made prior to that date, the cost of the acquisition has generally not been allocated to customer relationships and other identifiable intangible assets in IFRS. Market shares and other assets not meeting the definition of intangible assets under IFRS and totaling €2.4 billion as of September 1, 2004 were reclassified to goodwill in the transition from French GAAP to IFRS.

Under U.S. GAAP, all of the Group's business combinations are accounted for as purchases. In accordance with SFAS 141, Business Combinations, and related interpretations, the cost of an acquired company is assigned to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. In accordance with U.S. GAAP, customer relationships, trademarks and software intangible assets were identified with respect to the Group's acquisitions. As a result, a portion of goodwill in IFRS is reallocated to these identified intangible assets for U.S. GAAP. The remaining excess of cost over fair value of the net assets acquired is recorded as goodwill. In accordance with SFAS 142, all intangible assets acquired, including customer relationships, trademarks and software are amortized over their estimated useful lives. Goodwill is not amortized but instead is evaluated for impairment on an annual basis or when there is a triggering event indicative of impairment. A deferred tax liability is recorded with respect to all intangible assets except non-tax deductible goodwill.

A summary of the composition of the aggregate adjustments included in the reconciliations of profit attributable to equity holders of the parent to U.S. GAAP net income related to the Group's business combinations follows:

	For the year ended August 31,	
	2006	2005
	(millions of euro)	
Sodexho, Inc.	(51)	(48)
Gardner Merchant	(19)	(18)
Other	(15)	(6)
	<u>(85)</u>	<u>(72)</u>

As of August 31, 2006, the principal effects on the Group's balance sheet related to the accounting for business combinations were to decrease goodwill by €0.9 billion, increase intangible assets other than goodwill by €0.5 billion and increase deferred tax liabilities by €0.2 billion. As of August 31, 2005, the principal effects on the Group's balance sheet related to the accounting for business combinations were to decrease goodwill by €0.9 billion, increase intangible assets other than goodwill by €0.6 billion and increase deferred tax liabilities by €0.2 billion. Deferred tax liabilities related to the business combinations adjustments are included in the deferred taxes adjustment described in note 8.3(g).

The following table presents the allocation of intangible assets and goodwill, their estimated useful lives and the related amortization expense, as determined in accordance with U.S. GAAP.

	August 31,		Estimated	Amortization Expense Year Ended August 31,	
	2006	2005	Useful Life	2006	2005
	(millions of euro)		(years)	(millions of euro)	
Customer relationships	1,352	1,458	10 □ 19	82	64
Trademarks	30	30	5	-	-
Software and other	215	214	3 □ 7	31	33
Goodwill	3,035	2,957		-	-
	<u>4,632</u>	<u>4,659</u>		<u>115</u>	<u>97</u>

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	August 31,		Estimated Useful Life	Amortization Expense Year Ended August 31,	
	2006	2005		2006	2005
	(millions of euro)		(years)	(millions of euro)	
Accumulated amortization	(1,207)	(1,110)			
Total intangible assets and goodwill, net under U.S. GAAP	3,425	3,549			

Additional information with respect to the differences between IFRS and U.S. GAAP for the Group's significant acquisitions is provided below.

Sodexho, Inc.

In connection with the acquisition of the 53% of Sodexho, Inc. it did not already own in fiscal 2001, Sodexho Alliance agreed to convert the unvested stock options into unvested Sodexho Alliance stock options. Sodexho Alliance recorded a liability amounting to €79 million in connection with this agreement, computed as the aggregate intrinsic value of the options (using the market value of the underlying shares of €53.47 based on the average Sodexho Alliance share price over the 20 days preceding the transaction). The liability was recorded as part of the cost of the acquisition with a corresponding increase to the amount ascribed to goodwill. In connection with the transition to IFRS, the remaining amount of this liability was reversed against shareholders' equity.

Under U.S. GAAP, the portion of the intrinsic value of the rolled over unvested options related to future service was recorded as unearned compensation in shareholders' equity and not part of the cost of the acquisition, resulting in lower goodwill recorded for U.S. GAAP.

Gardner Merchant (GM)

In accounting for the acquisition of the worldwide operations of GM in 1995, the Group allocated a significant portion of the excess of purchase price over the fair value over the tangible assets acquired and liabilities assumed to market share. This market share was not subject to amortization and was reclassified to goodwill in the transition to IFRS (and therefore continues to not be amortized in IFRS). Under U.S. GAAP, the excess of purchase price over the fair value of the tangible assets acquired and liabilities assumed was partially allocated to identifiable intangible assets, including customer contracts, trademarks and assembled workforce (reclassified to goodwill and no longer amortized as of September 1, 2001), and amortized over their estimated useful lives of 14 years, five years and four years, respectively. The remaining excess was allocated to goodwill which was amortized over its estimated useful life of 30 years through August 31, 2001 and not amortized subsequent thereto.

Other acquisitions

Other acquisitions made by the Group also included U.S. GAAP adjustments to allocate a portion of the purchase price excess to customer relationships, generally amortized over 10 years. The effect of reversing impairment charges made in IFRS in the amounts of €1 million in fiscal 2006 and €3 million in fiscal 2005, as referred to in the next paragraph, is reflected in the "Other" line in the summary of the composition of the aggregate adjustments included in the reconciliations of IFRS profit to U.S. GAAP net income related to the Group's business combinations included above, as all of the adjustments related to entities included in this adjustment.

Impairment of goodwill

Under both IFRS and U.S. GAAP, goodwill is evaluated at least annually for impairment. However, in IFRS it is evaluated at the level of cash generating units (CGUs), which are generally identified by activity and country. In U.S. GAAP, goodwill is evaluated for impairment at the level of the reporting unit, which is identified as the operating segment or one level below. As such, since each U.S. GAAP reporting unit includes one or more CGUs it is possible that goodwill considered to be impaired in IFRS is not impaired in U.S. GAAP due to the broader grouping of entities included as well as the generally lower net book value of acquired entities in U.S. GAAP due to the amortization of intangible assets. For the years ended August 31, 2006 and 2005, goodwill impairment charges recorded in IFRS of \$3 million and \$1 million, respectively, were reversed in U.S. GAAP.

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(c) Stock-based compensation**Stock options**

Under IFRS, in accordance with the transitional provisions of IFRS 1, only stock option plans with a grant date subsequent to November 7, 2002, for which the equity instruments had not vested as of January 1, 2005, are measured and recognized as employee costs. Compensation expense related to these plans is recognized in the income statement over the related vesting period, with the offset to shareholders' equity. The amount of expense recognized for each period is determined by reference to the fair value of the options as of the grant date, as computed using a lattice model.

Under U.S. GAAP, effective for fiscal 2006 the Group adopted SFAS No. 123 (R), "Accounting for Stock-Based Compensation," which superseded APB Opinion No. 25, "Accounting for Stock Issued to its Employees." This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, and recognize the cost over the period during which an employee is required to provide service in exchange for the award—the requisite service period. This statement has been applied to all awards granted after the required effective date of June 15, 2006 and to awards modified, repurchased, or cancelled after that date, as well as to unvested options related to grants made prior to the effective date. The Group adopted the statement as of September 1, 2005 using the modified prospective transition method. As the Group currently and previously reports its financial statements, including a reconciliation to U.S. GAAP, under Item 17 in Form 20-F, it has not made the pro forma disclosures required by FAS 123.

Although the Group has used the lattice method for computing share-based compensation expense under both IFRS and U.S. GAAP there is still a difference related to the transition guidance for the two standards, which resulted in the unvested shares related to plans prior to November 7, 2002 being included in the computation of the U.S. GAAP charge but not in IFRS. In addition, certain of these shares are deductible for tax purposes upon exercise, and differences arise between IFRS and U.S. GAAP with respect to the computation of deferred taxes and/or income tax benefit, which is based on the intrinsic value of the options at each balance sheet date under IFRS and on the grant date fair value under U.S. GAAP, which is subject to revision only upon realization of the tax deduction on the tax return. There are also differences in the allocation between deferred tax expense, deferred taxes and shareholders' equity of actual tax benefits related to shares vested prior to the adoption of SFAS 123 (R) but exercised subsequent thereto and on which no compensation expense was recognized. Lastly, IFRS 2 was adopted effective for fiscal 2005; FAS 123 (R) was adopted effective for fiscal 2006.

(d) Pensions and postretirement benefits

Under IFRS, pension and similar obligations are accounted for using the projected unit credit valuation method. As permitted under IFRS 1, Sodexo elected to recognize directly in shareholders' equity, all accumulated actuarial gains and losses arising on retirement and other long-term employee benefits as of September 1, 2004. The same treatment was adopted in the preparation of the French GAAP consolidated financial statements for fiscal 2005. The Group has decided to early adopt effective August 31, 2005, the amendment to IAS 19 which allows actuarial differences generated annually to be recorded directly in shareholders' equity, without being recognized in the income statement. Actuarial differences recognized directly in shareholders' equity totaled $\square(12)$ million and $\square32$ million (net of tax: $\square(8)$ million and $\square22$ million) as of August 31, 2006 and 2005, respectively.

Under U.S. GAAP, the Group accounts for its pension and postretirement benefit plans in accordance with SFAS 87, *Employers' Accounting for Pensions* and SFAS 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Transition obligations were calculated as of September 1, 1999 as permitted for companies outside the United States and amortized over a period of 15 years from the initial implementation date of SFAS 87 in 1989 for pensions and of SFAS 106 in 1995 for other postretirement benefits. For the funded plans where the accumulated benefit obligation exceeded the fair value of the plan assets as of August 31, 2006 and 2005, an additional minimum liability has been recorded, with a corresponding entry recorded net of tax as accumulated other comprehensive income, a component of shareholders' equity. The effect on shareholders' equity of the additional minimum liability was $\square(97)$ million and $\square(68)$ million (net of tax: $\square(67)$ million and $\square(47)$ million) as of

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August 31, 2006 and 2005, respectively. Actuarial differences recognized directly in equity under IFRS and described in the paragraph above were reversed in the reconciliation to U.S. GAAP.

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(e) Discounting of liabilities

In IFRS, a provision (liability) is recorded if (i) an entity has a legal or constructive obligation at the balance sheet date, (ii) it is probable that settlement of the obligation will require an outflow of resources, and (iii) the amount of the liability can be reliably measured. Provisions primarily cover commercial, employee-related and tax-related risks and litigation arising in the course of operating activities, and are measured in accordance with IAS 37 using assumptions that take account of the most likely outcomes. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and any risks specific to the liability. The Group discounts certain long-term liabilities related to its self-insurance programs in the United States.

Under U.S. GAAP, self insurance liabilities are not discounted.

(f) Commitments to buy out minority investors

The Group has recognized a financial liability for put options held by minority investors to put their minority shares to the company, in accordance with IAS 32. Minority interests are eliminated in full in shareholders' equity and the balance is recognized as goodwill.

As such, put options held by minority investors are recognized as follows under IFRS:

- A financial liability is recognized as of the balance sheet date for the estimated amount to be paid;
- The related minority interest is reduced to zero;
- The balancing amount is reported as goodwill in the balance sheet;
- Additionally, the minority interests' share of profits is reclassified to profits attributable to equity holders of the parent.

Under U.S. GAAP, the put options are measured at their respective fair values, and a liability is required to be recorded for such amounts, in accordance with SFAS 150; changes in fair value are included in the income statement. As of August 31, 2006 and 2005, the fair value of the put options was determined to be zero; as such put options were exercisable at fair value and no liability was recognized. The effect on the balance sheet of reversing the IFRS accounting was to decrease goodwill by \$(4) million and \$(16) million, to increase minority interest by \$0.4 million and \$1 million, and to increase financial liabilities by \$4 million and \$15 million, as of August 31, 2006 and 2005, respectively.

Additionally, the U.S. GAAP adjustment related to the income statement effect of allocating to minority interest is a reduction in U.S. GAAP net income of .4 million and .8 million for the years ended August 31, 2006 and 2005, respectively.

(g) Deferred income tax effect of U.S. GAAP adjustments

This reconciliation item includes the tax effects of the U.S. GAAP adjustments, including business combinations, reflected in the reconciliations of shareholders' equity and net income. Tax effects were computed based on the tax attributes of the adjustments and at the applicable rate for the related jurisdiction.

(h) Earnings per share

The number of shares used to compute basic and diluted earnings per share under U.S. GAAP is summarized below:

	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
Basic weighted average number of shares	156,050,771	155,838,789
Average dilutive effect of stock options	1,432,620	222,786
Diluted weighted average number of shares	157,483,391	156,061,575

The diluted weighted average number of shares for fiscal 2005 as computed in accordance with U.S. GAAP differs from that used for IFRS because of the effects of IFRS 2, Share-based Payment. With the adoption of SFAS No. 123 (R) in fiscal 2006 in U.S. GAAP, the diluted weighted average number of shares is the same as in

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IFRS. The effects of the incremental stock option plan included in the U.S. GAAP share based payment computation for fiscal 2006 were anti-dilutive.

8.4 New U.S. GAAP accounting pronouncements

Recent Accounting Pronouncements U.S. GAAP

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

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

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

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

8.5 Other disclosures

The following are supplemental disclosures which pertain to the Group's financial statements as prepared in accordance with IFRS.

- (a) Allowance for doubtful accounts

Set forth below is a table which provides information on the Group's allowance for doubtful accounts.

August 31,	
2006	2005
(millions of euro)	

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Balance at beginning of period	81	80
Additions	1	
Deductions		
Scope of consolidation and currency translation adjustment	6	1
	<u> </u>	<u> </u>
Balance at end of period	88	81
	<u> </u>	<u> </u>

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