

# Diploma in Financial Management

## Module A Supplement

The information contained in this supplement should be used when answering the questions within the Module A Project. The information consists of a number of extracts from the 2005 Annual Report of Compass plc which have been reproduced with the kind permission of the Company.

**ONLY THOSE PAGES WHICH ARE REQUIRED TO ANSWER THE QUESTIONS HAVE BEEN REPRODUCED IN THIS SUPPLEMENT.**



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We are specialists who help clients either outsource or establish a food or support service, or sometimes both, to suit their needs.

How we do that draws on our global resources and our understanding of different cultures and market sectors. We work in partnership with our clients, usually in their premises. And by using their facilities and equipment we keep capital investment to an absolute minimum.

Looking at the world map today shows how far we have come since 1992. We have grown from a domestic operator to a global player. That journey has given us a great platform to build on and enabled us to benefit from opportunities far and wide.

Making the most of these opportunities starts, as ever, by being clear why we are in business.

Our aim is to be the premium operator in the contract catering and support services market with an outstanding reputation for quality, value for money and client & customer satisfaction.

To achieve this means maintaining our market leading positions in the world's key regions with major brands in our chosen business sectors. But it also means applying fresh thinking to the way we run our business, re-energising the talents that have made us a leader while looking at new ways of maximising value from our core operations.

We have to work smarter – simplifying what we do and how we do it, focusing on our core contract catering operations, leveraging client relationships by growing the range of our support services, maximising synergies for clients, organic profit growth for us and enhanced value for our shareholders.

We know what we have to do. The task now is to make it happen.

Our strategy is about building value for shareholders. Delivering this value is enshrined in 4 commitments to all our stakeholders. Commitments that each reflect the potential inherent in the business.

Our 4 commitments:

1. We will ensure that we maximise the return on the investments we have made.
2. We will never forget the importance of keeping the customer satisfied.
3. We will deliver on our expertise with an unrivalled consistency.
4. We will continue to place the best people in the business in our business.

## OPERATING AND FINANCIAL REVIEW

**The Group's operations are managed across 4 geographic divisions, each with a Chief Executive, and with each country having its own Managing Director.**

### North America

**£3,937m**

Turnover

**£207m**

Operating profit

**12%**

Growth in business

This was another excellent year for our North American business with like for like turnover growth of 12% and operating profit, excluding associates, goodwill amortisation and exceptional items, increasing from £190 million in 2004 to £207 million in 2005. North America now accounts for 32% of the Group's turnover, excluding fuel, and 29% of operating profits, excluding associates, goodwill amortisation and exceptional items, and employs over 123,000 people. We once again saw strong growth in our Healthcare businesses which grew by 15% on a like for like basis. The Business and Industry and Education sectors delivered solid growth whilst Vending showed a modest increase of 4% on a like for like basis. Our Sports & Leisure business had another very strong year with like for like growth of 17%, reflecting the success of Levy Restaurants in delivering not only strong contract gains, but also increased customer spend at our venues.

North America still represents a significant market opportunity. Based largely on information made available by the National Restaurant Association and Technomic Inc., it is estimated that just over 50% of the contract catering market is outsourced and that contractor penetration in the important Education and Healthcare sectors is estimated to be in the region of 40%.

The other factor in our success is a well developed retail model that drives throughput and spend per head implemented by an experienced and highly motivated management team led by Gary Green. There has been a slight decline in the operating margin to 5.3% (2004: 5.4%), mainly due to the impact of the National Hockey League strike and Hurricane Katrina towards the end of the year.

During the year significant contract gains and renewals included a new 3-year contract for Eurest, in conjunction with Canteen, with AT&T with annual turnover of nearly £3 million and the Hospital of the University of Pennsylvania awarded Morrison Management Specialists, in conjunction with Crothall, a new 5-year contract with annual revenues of over £11 million. The success of our Education business, Chartwells, is reflected in new and retained contracts with annual revenues of over £26 million including the University of West Florida, UNC Asheville, Wentworth Institute of Technology, Edinboro University, Rochester City Schools and a renewal of the contract with the Chicago Public Schools system. In addition The Bradley Center awarded Levy Restaurants a new 7-year contract with annual turnover of over £5 million.

In the aftermath of Hurricane Katrina we continued to service our clients and customers in the affected regions. In anticipation of the hurricane, Eurest, along with their clients, had organised

and prepared food services, water and basic living supplies for thousands of evacuees. Over 20,000 meals were served daily in affected areas. We established temporary 'tent cities' providing essentials for relief workers and victims, and supported 6 tent cities located in the Gulf States region. A relief centre in Pascagoula, Mississippi provided shelter and food for 15,000 evacuees. Also 4 tent villages, supporting over 2,600 employees and families were built. Morrison Management Specialists teams stayed in place through the hurricane to assist in the evacuation of 6 hospitals and served 15,000 meals daily to patients and residents at 4 hospitals and 2 senior dining communities in the Gulf Coast states.

The actions of our people in the wake of this natural disaster are a testament to their dedication to client and customer service.

The outlook for our business in North America is very good.

### United Kingdom

**£3,292m**

Turnover

**£205m**

Operating profit

**6%**

Growth in business

The UK now accounts for 23% of the Group's turnover, excluding fuel, and 29% of its operating profit excluding associates, goodwill amortisation and exceptional items and employs approximately 88,000 people. Despite achieving turnover growth of 6% on a like for like basis in Contract catering and 4% on a like for like basis in Travel Concessions, the overall financial performance of the business has been unsatisfactory. Cost pressures, particularly in Business and Industry, have resulted in the Contract catering margin declining from 8.6% in 2004 to 5.9% in 2005. We have only been able to pass on some of these cost increases to clients.

In July we refreshed the UK management team and instituted a programme to give us a more solid contract base from which to grow. Don Davenport, who became CEO of the UK business following the merger with Granada, stepped down after over 40 years service to the hospitality industry, for which we thank him. He has been replaced on an interim basis by Gary Green, CEO of our North American business. We have also appointed a new leader for our Business and Industry operations, which account for 55% of our Contract catering business. Chris Copner brings strong retailing skills with him from his time as Managing Director of our UK Travel Concessions business.

The first stage of this programme is to cut out unnecessary management layers, improve accountabilities and reduce cost. The UK market still offers significant opportunities, not least in Healthcare, Education, Leisure and increasingly Support Services. The Business and Industry sector is more mature but still capable of delivering profitable growth. To capture this growth, we have undertaken a detailed review of our contracts portfolio, to ensure we have a robust contract base with

## OPERATING AND FINANCIAL REVIEW

CONTINUED

sustainable margins. At the low end of the margin spectrum we have sought to increase prices and improve the margin or, in some instances, we are prepared to exit the contract. At the high end we have recognised that we need to absorb some of our cost increases, as we have this year, in order to retain these accounts. Properly executed, the net effect of these actions should enable us in 2006 to deliver the same level of profit as 2005.

Contract gains and renewals of note during the year include a renewed 7-year contract with Prudential with annual revenues of over £1 million; renewed contracts for Medirest with the West Hertfordshire Hospital NHS Trust and Homerton University Hospital NHS Foundation Trust with combined annual revenues of around £13 million and, in Education, renewed contracts with Durham County Council and Millfield School with annual revenues of over £11 million.

Our decision to sell our Travel Concessions business, in order to focus on our core Contract catering operations and to build on the growth in Support Services, will change the profile of our UK business. UK Travel Concessions account for 52% of total Travel Concessions turnover, excluding fuel, and 28% of our UK turnover, excluding fuel.

Despite the difficulties our UK business has faced over the past 2 years all of our people remain fully focused on delivering against their clients' and customers' expectations and this is reflected in the positive feedback we are receiving from our unit-based staff.

### Continental Europe and Rest of the World

#### Continental Europe

**£3,587m**

Turnover

**2%**

Growth in business

#### Rest of the World

**£1,888m**

Turnover

**8%**

Growth in business

Continental Europe represents 29% of the Group's turnover, excluding fuel, and 27% of its operating profit excluding associates, goodwill amortisation and exceptional items, whilst Rest of the World represents 15% of turnover, excluding fuel and 15% of operating profit excluding associates, goodwill amortisation and exceptional items. Approximately 195,000 people are employed in nearly 90 countries. Like for like turnover growth for the year was 4.0% with the margin broadly in line with last year at 5.5%.

#### Continental Europe

Trading in Continental Europe remains difficult with little or no growth in the major markets of France, Germany, the Netherlands and Italy. In France and the Netherlands we put in place new management during the course of the year that have restructured the business by reducing management layers and introducing a shared services approach to back of house functions, such as accounting and IT, which have reduced operating costs. Trading in Spain and Switzerland was more encouraging.

We continue to roll out our purchasing model and the success of this is reflected in margins broadly similar to last year despite rising costs, particularly related to escalating energy prices. We have also aligned our European purchasing teams more closely with country operations so as to ensure that purchasing synergies are realised whilst ensuring the needs of operators at the local level are being met.

Significant contract gains and renewals in the year include, in Switzerland, a new 5-year contract with Swisscom with annual revenues of over £13 million; in Germany a new 5-year contract with Alcatel worth £3 million in annual revenues; in France contracts with Sollac Loraine and Bouygues Arc de Seine worth over £3 million in annual revenues; contracts in Healthcare included Association Notre-Dame de Bon Secours in Paris, University Hospital Bonn in Germany, Maria Gamla Stan District Council in Sweden and Ullevål Patient Hospital in Norway with combined annual revenues of over £6 million; and in Vending contracts with Paresto (MOD) in the Netherlands and Saab in Sweden worth over £3 million.

#### Rest of the World

There were strong new business performances in Australasia and South America. Contract gains included, in Japan, a new 3-year contract with Japan Post worth over £18 million in annual revenues and a 5-year contract with Fukuoka Mutual Aid Association worth over £2 million in annual revenues; and in Australia a 5-year contract with the Commonwealth Government of Australia worth over £13 million in annual revenues and a 10-year contract with Campus Living (Sydney University Village and RMIT village) worth nearly £2 million in annual revenues.

In order to grow our business in emerging markets such as China, Indonesia, India, Turkey and Russia, Alain Dupuis stepped down from the Group Board to become CEO of these emerging markets to ensure that they get the necessary management focus to realise their future potential.

We are continuing to scale down our Middle East military business with turnover reducing to £170 million in 2005 (2004: £250 million) and operating profit, before exceptional items, was £35 million (2004: £50 million). There are still opportunities for military business in the Middle East but increasingly we are choosing not to participate in this work because the margin is becoming less attractive relative to the complexity of operations and associated risks.

## OPERATING AND FINANCIAL REVIEW

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### Our people

This year we have seen continued evidence that our strategy to be recognised as a preferred employer is delivering real benefit. Our most recent global workforce survey shows an increase in loyalty, pride in the Group and the likelihood to recommend Compass as a place to work compared to the same survey in 2003. To further underline this Compass Group was named 7th best large company to work for in the Annual Best Companies to Work For list produced by the Sunday Times newspaper in the UK, a ranking based on the paper's own independent survey of our people. Most recently the Group won 3 Personnel Today awards for Employer Branding; Best HR Strategy and the Best Overall Award.

A significant contribution to this performance is the degree to which we live our values in the organisation – our people continue to rate us highly for the emphasis we place on teamwork and on the focus we give to service and food quality. Importantly, the greatest improvements we have seen have been with our front-line service teams, especially in those areas such as recognition, communication, support from their manager and sharing success, where we have put specific programmes in place in response to the feedback from our last global survey.

Our commitment to listen to our people and take action has contributed to an increase in participation in the survey.

In addition we have begun to see the impact of the Group's employment brand, which was launched in 2004, to improve our ability to attract, recruit and retain the best people by clearly and consistently communicating the reasons why people would choose to join and develop their careers with Compass.

Our commitment is to deliver real opportunities to our people throughout their career. We define this in 8 core opportunities, ranging from how people join the Group, to work life balance and reward and recognition. One of these is the opportunity to learn and grow, which restates our long-standing commitment to developing the skills of our people. This year has seen a number of innovative new programmes to support this. Examples of this are the Compass College in Australia, which has created a suite of training programmes for staff at all levels that can be delivered either face to face or online via the web; the Great Business Growing our Sales programme, which provides our front-line teams with the retail and merchandising skills needed to drive up sales and throughput; and Sed de Saber, an award-winning self-paced learning programme in North America to help Spanish-speaking staff improve their English, both on a general level and specifically for working in the foodservice industry.

The net result of our people strategy is that we are seeing a significant increase in internal promotions, improvements in retention in countries such as Australia, France and the UK, and an increase in the number of people applying to work for Compass.

Our people strategy continues to attract external recognition, winning a number of major awards in the past year. Most rewarding of all is that the individual and team skills of our people and the quality of the food and service they provide

continues to receive acclaim – in the 2004 Culinary Olympics alone we won an outstanding 57 awards, including 3 gold, 32 silver and 14 bronze medals. We will continue to build on these successes in the year ahead.

### Acting responsibly in business

Naturally we wish to focus on areas where we can have most impact, and we concentrate our efforts on these: our people, wellness and nutrition, sourcing and serving food responsibly, communities and the environment.

Because of our position as one of the largest foodservice companies working around the globe we have a big influence on what 20 million customers a day choose to eat and drink; the foods we buy can affect food production sustainability and the environment; and we have an obligation to the vast number of different communities in which our people live and work. So with our scale comes responsibility.

We take this responsibility very seriously. It's what people expect of us – whether clients, employees, suppliers, investors or other stakeholders. They trust every one of us to act responsibly in the way we manage our business. Responsible behaviour has always been deeply ingrained in our corporate culture.

2 years ago we developed a policy and measurement matrix that highlighted the key impact areas of operations. We review this matrix regularly, with feedback from our stakeholders, to ensure the impact areas are still relevant. Furthermore, in June 2004 we became a signatory to the United Nations Global Compact and the 10 principles they use. This, together with our own business principles, forms the foundation of our corporate responsibility programme as it affects everyone, everyday, everywhere.

### Doing business responsibly

We have always encouraged our people to act with integrity in their relationships with each other, our clients and customers, suppliers and partners and other stakeholders.

In the last year we talked to many of our stakeholders\* to understand their expectations. In their view, the most relevant activities for Compass to demonstrate responsibilities in action were:

- being proactive about wellness and nutrition, for all the world's citizens;
- actively supporting our people in building healthy and sustainable communities;
- improving the employability of disadvantaged people by sharing skills and expertise;
- implementing cost-effective environmental initiatives; and
- working with local communities and suppliers to help them supply the goods Compass wants, and be in a position to take up employment opportunities with Compass.

\*Source: Compass Group stakeholders research on corporate responsibility, Sept-Oct 2004

## OPERATING AND FINANCIAL REVIEW

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### Our business principles

Our business principles form the foundations upon which our corporate responsibility programme is based. The full text is available at [www.compass-group.com](http://www.compass-group.com):

- employees – as a service company, our people are key to our success. We should respect and value the individuality and diversity every employee brings to our business and seek always to create a positive, open, working environment;
- clients and customers – our reputation and the loyalty of our clients and customers depends upon our delivering superior food quality, service and choice;
- investors – our success is built upon the trust and confidence of our investors and we are dedicated to protecting their long-term interests;
- suppliers and subcontractors – we seek to establish mutually beneficial relationships with all our suppliers, and encourage them to match our high standards of food safety, working conditions, trading practices, health and safety and environmental protection; and
- governments and the wider community – our success depends on complying with the law, together with sensitivity to local customs and conventions governing business relationships.

In addition, we use the 10 principles set out in the United Nations Global Compact relating to human rights, labour standards, the environment and anti-corruption, to underpin our own business principles.

### How we manage corporate responsibility

Progress against our strategy is reviewed annually by the Group Board, and more often by the Executive Committee, whose members have responsibility for key impact areas.

A steering group of senior managers provides support to individual country and operating company management teams. This structure provides leadership, guidance and support in the form of a common set of policies and principles, and allows us to manage and assess our performance. But a completely prescriptive approach could not take into account the enormous diversity of our business, so our structure allows people the freedom to get on and do what is right at a local level.

We are included in the DJSI and FTSE4Good Indices, and our participation in these provides us with an invaluable tool for benchmarking progress, and we will report on this in future.

Summarised below are the key impact areas we focus on:

### Our people

People are at the heart of our business, and our success depends on attracting, developing and retaining the very best. That is why we place so much emphasis on ensuring everyone, everywhere, shares a common set of values – values which underpin our approach to corporate responsibility.

### Wellness and nutrition

There are 300 million obese adults in the world – 100 million more than 10 years ago. In 20 years time the number of people dying from weight-related illnesses will have doubled.

### Sourcing and serving food responsibly

Each year we buy over £3.5 billion worth of food. Our clients and customers want to know where the food they eat comes from, that it's safe and from sustainable sources. We do too.

### Compass in the community

With 40,000 outlets around the world we're part of a lot of different communities. The community element within our corporate responsibility programme focuses on our belief that we achieve the greatest impact by encouraging our people to give time, resources and skills to initiatives that address social exclusion issues within those communities.

### Our role in respecting the environment

Everyone's future depends on the availability of clean natural resources. We recognise we have a responsibility to do our bit to protect the planet.

### Our plans for corporate responsibility:

- to report annually on what we have done to embed our business principles into our day-to-day operations;
- to play our part in tackling the global challenge of wellness and nutrition;
- to complete our food safety handbook and roll out to unit managers in Europe and North America during 2006 and to the rest of the Group in 2007;
- to put in place policies and procedures that will continue to ensure our food is sourced responsibly;
- to report on activities to manage our environmental impacts, including data on energy usage in the offices and premises for which we are directly responsible;
- to put in place a set of indicators to measure our progress; and
- to report on our progress in 2007 and outline targets for future activity.

## OPERATING AND FINANCIAL REVIEW

CONTINUED

### Financial Review

The Group achieved 7% like for like turnover growth in 2005 with strong performances in North America and Rest of the World regions with more difficult trading particularly in the UK and several European countries. Actions are underway to improve financial performance, with continued focus on delivery of strong free cash flow and improved returns on capital employed ('ROCE') over the medium term. The Group has announced medium-term (2006-2008) objectives to improve ROCE by 100 basis points and to generate free cash flow over the period of £800-£850 million (post the disposal of SSP). As the market leader in a fragmented market place, the Group is well positioned to benefit from its strong presence in the key geographies, where significant opportunities remain.

#### Group performance

The Group's reported financial summary for the year ended 30 September 2005 is set out below.

	2005	2004	Increase/ (decrease)
Turnover	<b>£12,704m</b>	£11,772m	7.9%
Total operating profit			
- reported	<b>£302m</b>	£500m	(39.6)%
- underlying <sup>(1)</sup>	<b>£711m</b>	£775m	(8.3)%
Operating margin <sup>(2)</sup>	<b>5.7%</b>	6.8%	(110)bps
Profit before tax			
- reported	<b>£171m</b>	£370m	(53.8)%
- underlying <sup>(1)</sup>	<b>£581m</b>	£645m	(9.9)%
Basic earnings per share			
- reported	<b>0.0p</b>	8.3p	
- underlying <sup>(1)</sup>	<b>19.1p</b>	21.1p	(9.5)%
Free cash flow	<b>£348m</b>	£246m	41.5%
Return on capital employed <sup>(3)</sup>	<b>5.7%</b>	6.4%	(70)bps

(1) Underlying performance excludes goodwill amortisation and exceptional items.

(2) Operating margin excludes fuel, associates, goodwill amortisation and exceptional items.

(3) See below for basis of calculation.

The 5-year track record in reported turnover, total operating profit, free cash flow and basic earnings per share is shown on page 7.

#### Turnover

The main factors that affected the year on year change in turnover are summarised below.

	%
Like for like growth	7
Contribution from acquisitions	2
Movements in translation rates	(1)
Total - excluding fuel	8

Like for like growth excludes fuel and is calculated by adjusting for acquisitions (excluding current year acquisitions and including a full year in respect of prior year acquisitions), disposals (excluded from both years) and exchange rate movements (translating the prior period at current period exchange rates), and compares the results against 2004.

Like for like turnover growth was achieved as a result of new contract gains of 11% offset by contract losses of 5% and positive throughput of 1%, driven by North America where the business has been focused on driving volumes within existing accounts as well as achieving price increases.

Throughput represents the movement in turnover in the existing estate, influenced by headcount changes, participation rates, price increases and average spend per head. Throughput varies by sector with Education and Healthcare, which are much less affected by the economic cycle, achieving positive throughput of 3% and 2% respectively in 2005. Business and Industry and Vending were broadly flat. Throughput in the Travel Concessions sector was also positive at 2%.

The Group continues to focus on client retention, which was again high at 95%. This was achieved as a result of continued investment in people, client account management and contract retention teams.

The strong performance in like for like turnover was driven by new business wins across all sectors, with a continued trend to outsourcing in Healthcare and a high level of activity around the globe in Offshore and Remote supporting the buoyant extractive industries sector.

The table below sets out like for like growth by sector for each geographic division and the Group total.

	North America %	UK %	CE & ROW %	Group %
Contract:				
Business and Industry	11	9	2	6
Defence, Offshore and Remote	28	13	8	10
Education	12	(1)	2	7
Healthcare	15	5	5	10
Sports and Leisure	17	3	5	9
Total Contract	13	6	4	8
Vending	4	19	2	4
Travel Concessions	20	4	4	6
Total	12	6	4	7

Travel Concessions principally comprises: Creative Host in North America; Moto, railways and airport concessions, Harry Ramsden's and Millie's Cookies in the UK; Rail Gourmet, Inflight, airport concessions and motorways (in France, Italy, Portugal, Germany and Japan) in Continental Europe and Rest of the World.

#### Total operating profit

The decline in total operating profit, before goodwill amortisation and exceptional items, of 8.3% resulted primarily from tough trading in the UK and the reduction in scale and profitability of the Group's Middle East military business. Trading conditions in Continental Europe remained difficult in France, Germany, the Netherlands and particularly Italy, which saw a significant downturn in the Business and Industry sector. In North America, there has been a slight decline in the year on year operating margin mainly due to the impact of the National Hockey League strike and Hurricane Katrina but operating profit grew strongly at 9%.

## OPERATING AND FINANCIAL REVIEW

CONTINUED

### Profit before tax

Profit before tax, goodwill amortisation and exceptional items for 2005 was £581 million (2004: £645 million).

### Basic earnings per share

Basic earnings per share, before goodwill amortisation and exceptional items, was 19.1 pence (2004: 21.1 pence).

### Free cash flow

Free cash flow for 2005 recovered strongly in the year to £348 million (2004: £246 million). Reduced operating profit and higher cash interest payments (including £20 million as a result of the 2004 swap monetisation) were more than offset by a stringent allocation of capital expenditure and improvements in working capital management.

Free cash flow in 2004 of £246 million was adversely impacted by a significant working capital outflow, offset in part by a one-off receipt of £104 million in respect of the monetisation of certain 'in the money' interest rate swaps.

### Return on capital employed

Return on capital employed was 5.7% (2004: 6.4%) based on total operating profit before goodwill amortisation and exceptional items (excluding the Group's minority partners' share of total operating profit) net of tax at 30%, and an average capital employed for the year of £8,069 million (2004: £7,894 million).

Average capital employed has been calculated by adding back net debt, goodwill written off to reserves and goodwill amortised through the profit and loss account. The capital employed in the business as at 30 September 2005 and 2004 is detailed in the table below.

	2005 £m	2004 £m
Net assets	<b>2,284</b>	2,482
Net debt	<b>2,316</b>	2,373
Goodwill written off to reserves	<b>2,147</b>	2,132
Goodwill amortised through the profit and loss account	<b>1,382</b>	1,021
Capital employed	<b>8,129</b>	8,008

### International Financial Reporting Standards ('IFRS')

The Group will report under IFRS for the year ending 30 September 2006. In May 2005, the Group provided an indication of the principal effects of IFRS on the Group. Further information, including restatement of the 2005 results under IFRS, will be presented prior to the announcement of the 2006 Interim Results.

### Turnover

2005 – £12,704m



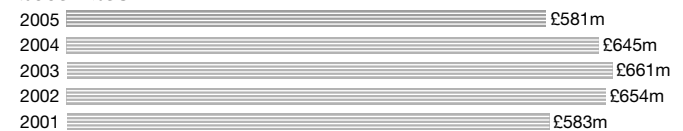
### Total operating profit

2005 – £711m



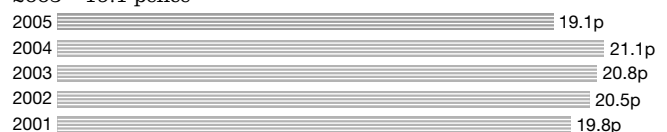
### Profit before taxation

2005 – £581m



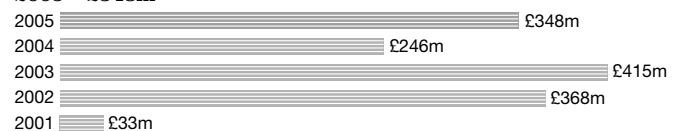
### Basic earnings per share

2005 – 19.1 pence



### Free cash flow

2005 – £348m

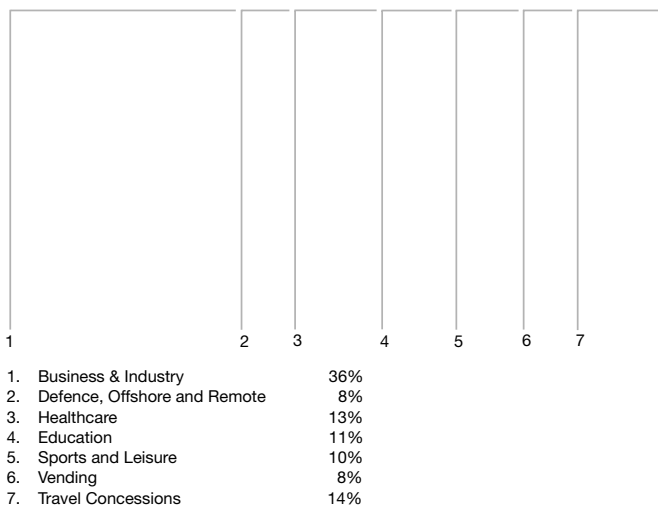


Goodwill amortisation and exceptional items are excluded from these graphs.

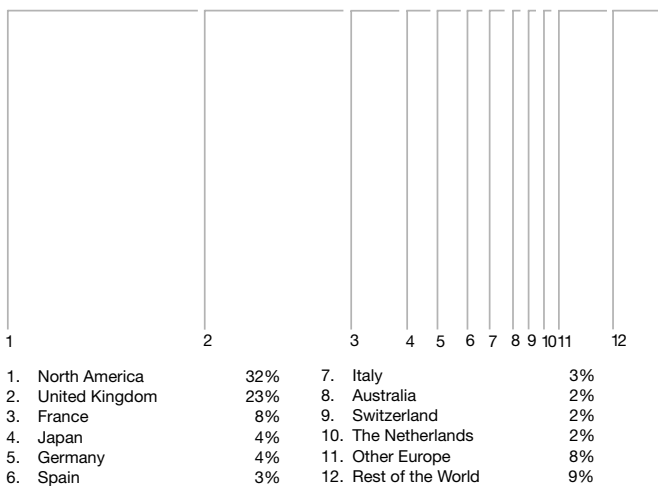
## OPERATING AND FINANCIAL REVIEW

CONTINUED

### 2005 Sector analysis of turnover excluding fuel



### 2005 Geographical analysis of turnover excluding fuel



### Divisional performance

	2005	2004	Reported increase %	Constant currency increase %	Like for like increase %
<b>Turnover (£m)</b>					
North America	<b>3,937</b>	3,531	11	15	12
United Kingdom	<b>2,812</b>	2,626	7	7	6
Continental Europe and rest of the world	<b>5,443</b>	5,119	6	5	4
Total – excluding fuel	<b>12,192</b>	11,276	8	9	7
Fuel	<b>512</b>	496	3	3	3
<b>Total</b>	<b>12,704</b>	11,772	8	8	7

	2005	2004	Reported increase %	Constant currency increase %
<b>Total operating profit (£m)</b>				
<b>Subsidiary undertakings</b>				
North America	<b>207</b>	190	9	12
United Kingdom	<b>205</b>	294	(30)	(30)
Continental Europe and rest of the world	<b>297</b>	287	3	3
	<b>709</b>	771	(8)	(7)
<b>Associates</b>	<b>2</b>	4	–	–
<b>Total</b>	<b>711</b>	775	(8)	(8)

	2005	2004
<b>Operating margin excluding fuel (%)</b>		
North America	<b>5.3</b>	5.4
United Kingdom	<b>7.0</b>	10.9
Continental Europe and rest of the world	<b>5.5</b>	5.6
<b>Total</b>	<b>5.7</b>	6.8

Certain minor reclassifications have been made to the previously reported analysis of divisional performance to align with the Group's current management structures. Total operating profit is before goodwill amortisation of £269 million (2004: £275 million), a goodwill impairment charge of £95 million (2004: £ nil) and an exceptional operating charge of £45 million (2004: £ nil). Fuel turnover comprises £480 million in the UK and £32 million in Continental Europe and rest of the world (2004: £466 million and £30 million respectively). Profit from subsidiary undertakings includes £8 million in the UK and £ nil in Continental Europe and rest of the world from fuel (2004: £8 million and £ nil respectively). Operating margin is based on turnover and total operating profit excluding fuel, associates, goodwill amortisation and exceptional items.

The geographical and sector analyses of turnover, excluding fuel, for 2005 are shown in the charts on the left.

## OPERATING AND FINANCIAL REVIEW

CONTINUED

### North America

32% of Group turnover, excluding fuel (2004: 31%).

2005 has been another successful year in North America, both in terms of turnover and profit growth, extending across all the primary business sectors. Reported turnover increased to £3,937 million (2004: £3,531 million) and by 12% on a like for like basis, well ahead of last year's 7%. In Healthcare, Morrison's and Crothall's like for like turnover growth was 15%. Our position in the important Healthcare market was further strengthened by the acquisition of HDS Services, the only significant acquisition in the year, which was completed in January 2005 for £16 million. Sports and Leisure has had another very strong year with like for like growth of 17%, reflecting the success of our Levy Restaurants business in delivering not only strong contract gains, but also increased customer spend at our venues. The Business and Industry and Education sectors delivered solid performances. Growth was driven by new business wins in conjunction with improved throughput. A significant success has been the concerted drive to increase participation and spend per head, including passing on price increases. Vending showed a more modest increase of 4% on a like for like basis.

Total operating profit, excluding associates, goodwill amortisation and exceptional items, increased by £17 million to £207 million (2004: £190 million). There has been a slight decline in the operating margin to 5.3% (2004: 5.4%), mainly due to the impact of the National Hockey Strike and Hurricane Katrina towards the end of the year.

### United Kingdom

23% of Group turnover, excluding fuel (2004: 23%).

Reported turnover, excluding fuel, increased to £2,812 million (2004: 2,626 million) and by 6% on a like for like basis, broadly in line with last year.

In Contract, like for like turnover increased by 6% to £1,930 million (2004: £1,794 million) with strong performances in all sectors except Education where sales declined by 1%. Most contract caterers in the Education sector have been impacted by declining participation during the year following recent negative publicity regarding the standard of school meals. Healthcare has again had a strong year benefiting from new contract gains, renewals and extensions to the range of services offered. This resulted in growth of 5% on a like for like basis. We have continued to see good growth in the Business and Industry sector, helped by the mobilisation of a significant contract for managed services with one of our large banking clients.

Travel Concessions achieved turnover growth of 4% on a like for like basis, increasing from £775 million in 2004 to £814 million in 2005, despite the impact of the London bombings on our railway station operations. The M&S Simply Food concept roll-out continued at our motorway and railway sites and was well received in the year.

Total operating profit, including fuel but excluding associates, goodwill amortisation and exceptional items, was £205 million (2004: £294 million). The decline of £89 million is due in part to cost pressures affecting, in particular, the Business and Industry sector and the impact of the London bombings. The remainder of the decline is the result of increased pension costs, lower disposal profits of £16 million, significant restructuring costs, the sale of the Gatwick Meridien hotel £4 million and the £5 million impact on profits of reduced capital spend. The overall margin, excluding fuel, achieved in the year was 7.0% (2004: 10.9%).

In Contract and Vending, operating margins were 5.9% (2004: 8.6%) and operating profit, excluding associates, goodwill amortisation and exceptional items, was £117 million (2004: £160 million).

Travel Concessions operating margins were 9.8% (2004: 16.3%) and operating profit, excluding associates, goodwill amortisation and exceptional items, decreased to £80 million (2004: £126 million).

### Continental Europe and Rest of the World

45% of Group turnover, excluding fuel (2004: 46%).

Reported turnover, excluding fuel, increased to £5,443 million (2004: £5,119 million) with like for like turnover growth of 4%. Strong performances in Rest of the World, particularly Australasia and South America, were partly offset by more challenging trading conditions in France, Germany, the Netherlands and Italy and a scaling down of our Middle East military business.

In Continental Europe, overall like for like turnover grew by 2% with flat like for like growth in Contract. Market conditions in northern Europe continued to be difficult with site closures and headcount reductions holding back growth in Germany, France, the Netherlands and Italy in particular. We have strengthened our management teams in these countries to focus on client retention and drive throughput via participation and spend per head. Spain and Switzerland again performed strongly growing by 7% and 6% respectively. Scandinavia continues to perform well and benefited from high levels of activity in the Travel Concessions sector and the oil and gas business.

## OPERATING AND FINANCIAL REVIEW

CONTINUED

Rest of the World like for like turnover growth of 8% reflects the strength of the Remote Site sector in Australasia as the extractive industries continue to meet the high demand for crude oil and minerals. In South America, we also continue to see good business growth led by Brazil where Business and Industry and Remote Site operations are particularly buoyant. The Group continues to scale down its Middle East military business with turnover reducing to £170 million in 2005 (2004: £250 million). There are still opportunities for military business in the Middle East but increasingly, the Group is choosing not to participate in this work because the margin is becoming less attractive relative to the complexity of the operations and associated risks. Excluding the Middle East military business, like for like turnover growth was 14%.

Total operating profit, excluding associates, goodwill amortisation and exceptional items, has increased by 3% to £297 million (2004: £287 million) and operating margin is broadly in line with 2004 at 5.5% (2004: 5.6%).

In Continental Europe, total operating profit, excluding associates, goodwill amortisation and exceptional items, increased by 7% to £190 million (2004: £178 million). The operating profit improvement results from a strong turnaround in the Travel Concessions business, particularly in Germany, France and Scandinavia. Operating margin in Continental Europe increased to 5.3% in 2005 (2004: 5.2%).

Rest of the World total operating profit, excluding associates, goodwill amortisation and exceptional items, reduced by 2% to £107 million (2004: £109 million) and operating margin has moved back slightly to 5.7% (2004: 6.3%) reflecting the impact of scaling back our Middle East military business where operating profit, before exceptional items, was £35 million (2004: £50 million). Excluding this, total operating profit, excluding associates and goodwill amortisation was £72 million (2004: £59 million) a 22% increase. Operating margin was 4.2% (2004: 4.0%), driven by good conversion of incremental sales to incremental profit in Australasia and South America.

### Interest

Net debt at 30 September 2005 was £2,316 million (2004: £2,373 million). Net interest expense for the year was £130 million (2004: £130 million). The average cost of funding for the year was 4.8% (2004: 4.8%). Interest cover for 2005 was 5.5 times total operating profit before goodwill amortisation and exceptional items. Higher dollar borrowing costs are expected to increase the net interest expense to nearer £140 million in 2006 (before the impact of proceeds from disposals and the adoption of IFRS).

### Profit before taxation

Profit before taxation, goodwill amortisation and exceptional items decreased by 9.9% from £645 million to £581 million.

### Taxation

The overall Group tax charge was £134 million giving an effective tax rate on profit on ordinary activities before taxation, goodwill amortisation and exceptional items of 23.1% (2004: 23.6%), which is below the UK corporate tax rate of 30%.

The main reasons for the low overall rate in 2005 are prior year adjustments representing the recognition of reliefs associated with past acquisitions and also the successful resolution during the course of the year of several significant issues, principally overseas. A reconciliation of the effective current tax rate for the year (i.e. the overall rate excluding deferred tax and prior year adjustments) is included in note 7 to the financial statements. This reconciliation summarises the reasons why the Group's effective current tax rate of 28% was below the UK corporate tax rate of 30%. The main reasons were the benefit arising from the tax deductibility of part of the Group's goodwill (2%), losses brought forward (2%) and other items (a net benefit of 1%) offset by the impact of higher overseas tax rates (3%).

The overall Group effective tax rate for 2006 onwards (when the Group will report under IFRS) is expected to move to around 30%. This increase reflects the fact that the earnings benefit of the tax deduction for goodwill in the US will no longer be recognised through the profit and loss account (although there is no cash tax impact).

The Group's cash tax rate for 2005 was 19% (2004: 17%). For 2006 onwards, the cash tax rate is likely to average out, over time, in a range from the mid to high 20s.

### Goodwill amortisation and exceptional items

The goodwill amortisation charge for the year was £269 million (2004: £275 million) and an additional charge of £95 million in respect of the impairment of goodwill carried on the Italian business was incurred.

The decline in scale of the Group's Middle East military business in 2005, with turnover down from £250 million in 2004 to £170 million in 2005 and with operating profit, before exceptional items, down from £50 million in 2004 to £35 million in 2005, is expected to continue into 2006, with operating profit expected to be no more than £5 million. In the light of this quicker than expected scaling back in activity, asset write-downs and provisions of £45 million have been reported as an exceptional item in 2005. The Group also disposed of 75% of Au Bon Pain in North America, the Gatwick Meridien hotel in the UK and paid further costs relating to previous disposals resulting in a net exceptional loss on disposal of businesses of £1m.

There were no exceptional items in 2004.

## OPERATING AND FINANCIAL REVIEW

CONTINUED

### Earnings per share

Basic and diluted earnings per share on a reported basis were both nil pence (2004: 8.3 pence). Basic earnings per share before goodwill amortisation and exceptional items for the year was 19.1 pence (2004: 21.1 pence). Attributable profit and basic earnings per share are reconciled below.

	Attributable profit		Basic earnings per share		Change
	2005 £m	2004 £m	2005 Pence	2004 Pence	
Reported	<b>1</b>	180	<b>0.0</b>	8.3	
Goodwill amortisation	<b>269</b>	275			
Exceptional items	<b>141</b>	–			
Underlying <sup>(1)</sup>	<b>411</b>	455	<b>19.1</b>	21.1	(9.5)%
Currency translation	–	(4)			
Constant currency	<b>411</b>	451	<b>19.1</b>	20.9	(8.6)%

(1) Underlying performance excludes goodwill amortisation and exceptional items.

### Dividends

The recommended final dividend is 6.5 pence per share resulting in a total dividend for the year of 9.8 pence per share, an increase of 5.4% on 2004, reflecting confidence in the Group's ability to generate strong free cash flow. Dividend cover for 2005 was 1.9 times profit before goodwill amortisation and exceptional items. In the short term, earnings and cash dividends cover will be impacted by IFRS, the increase in the cash tax rate and the disposal of SSP. Whilst we remain committed to continue to grow the dividend in real terms, our objective over the medium term will be to move the dividend cover more towards the 2 times level.

### Acquisitions

The Group's strategic focus continues to be on the organic development of its existing core businesses. During the year there have been a small number of acquisitions either to strengthen the Group's geographic coverage or to reinforce its sectoral presence in certain areas. The Group purchased businesses for £39 million in 2005 and purchased further shares in subsidiary companies not wholly owned for £66 million. £4 million of the aggregate purchase price is deferred consideration payable in the future. In aggregate, the net liabilities acquired had a provisional fair value of £8 million, including £2 million of net cash, resulting in goodwill of £113 million. Details of the acquisitions are given in note 21 to the financial statements.

The acquisition of other minority interests and the payment of deferred consideration is currently expected to amount to around £150 million in 2006. The Group does not currently anticipate any significant further new acquisitions during 2006.

### Pensions

In total, the Group charged £78 million (2004: £70 million) to profit before tax in respect of its pension arrangements, of which £52 million (2004: £48 million) relates to defined benefit schemes and £26 million (2004: £22 million) relates to defined contribution schemes. Actuaries to the Group's defined benefit pension arrangements advise the Pension Trustees on the funding rates required by the Group. In total, the Group paid £100 million (2004: £74 million) during the year to the pension providers in order to enable the pension funds to fulfil their obligations.

Disclosure in accordance with FRS 17 Retirement Benefits is provided in note 22 to the financial statements. This shows that, at 30 September 2005, there was an unprovided pension deficit (net of deferred tax) of £222 million (2004: £131 million). Had the Group adopted FRS 17, the charge to the profit and loss account, before interest and tax, would have been £63 million (2004: £56 million, net of a £6 million one-off curtailment credit). The corresponding financing charge recorded to interest expense would have been £15 million (2004: £19 million) giving a total charge of £78 million (2004: £75 million).

### Cash flow

Free cash flow of £348 million (2004: £246 million) reflects reduced operating profit and higher cash interest payments (including a £20 million outflow as a result of the 2004 swap monetisation), more than offset by a more stringent allocation of capital expenditure and improvements in working capital management.

Payments in respect of provisions for liabilities and charges absorbed £40 million (2004: £73 million). £31 million was spent on insurance, pensions and other post-employment benefits, £6 million on settling onerous contracts and £3 million in respect of legal and other claims.

Interest payments absorbed a net £159 million (2004: £131 million, before a one-off derivatives monetisation receipt of £104 million).

The net tax paid of £108 million (2004: £107 million) represents 19% of profit before tax, goodwill amortisation and exceptional items (2004: 17%) and is significantly less than the total tax charge for the year of £134 million. The main reasons for this difference are items allowable for tax but which are not charged to the profit and loss account, tax losses brought forward and utilised in the year, capital allowances in excess of depreciation and the timing of tax payments.

Net capital expenditure absorbed £291 million (2004: £329 million). Including the £12 million of fixed assets purchased under finance lease contracts (2004: £9 million), net capital expenditure represents 2.5% of turnover excluding fuel (2004: 3.0%). The Group has stringent controls on capital expenditure that are monitored centrally. There are fixed authority limits at each subsidiary company level and internal rate of return criteria that each project must achieve to obtain approval.

## OPERATING AND FINANCIAL REVIEW

CONTINUED

Acquisition payments were £124 million, comprising £105 million of consideration paid, less £2 million of cash acquired and £21 million of deferred consideration and costs paid in respect of previous acquisitions.

In aggregate, deferred consideration payable at 30 September 2005 amounted to £28 million (2004: £41 million).

In 2005, dividend payments totalled £205 million (2004: £249 million). 2004 reflected the payment of 3 dividends as the Group accelerated the timing of dividend payments.

Net proceeds from the sale of 75% of Au Bon Pain and the Gatwick Meridien hotel were £75 million (proceeds from disposals in 2004: £86 million).

The net cash inflow for the year was £94 million, before £1 million of proceeds on the issue of ordinary shares, £12 million of new finance leases and a translation loss on net debt for the year of £26 million, principally as a result of the closing US dollar rate moving from 1.81 to 1.77 over the year, and the closing Euro rate moving from 1.46 to 1.47 over the year.

Closing net debt as at 30 September 2005 was £2,316 million (2004: £2,373 million).

### Gearing

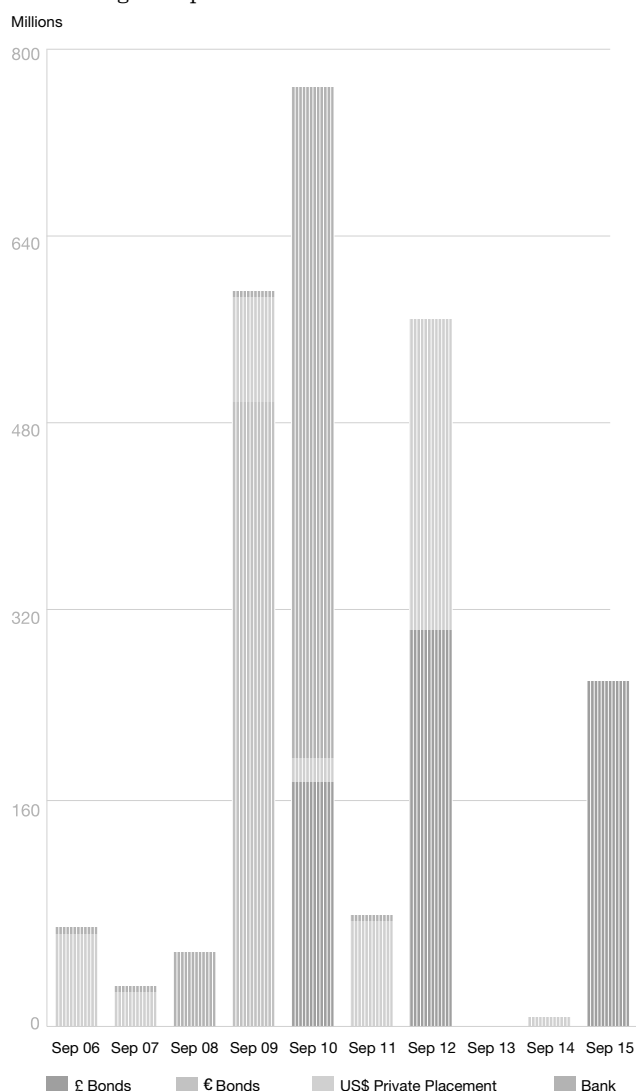
Gearing is not a key measurement ratio for the Group because of the effect of goodwill written off to reserves. The Group has a medium-term interest cover target of approximately 5 times profit before interest, tax, goodwill amortisation and exceptional items. However, this is only one of a range of ratios used by the banks and rating agencies, covering the strength of the cash flow, profit and loss account and balance sheet. The ratio of net debt to market capitalisation of £4,446 million as at 30 September 2005 was 52% (2004: 50%).

### Financial instruments

The Group continues to manage its interest rate and foreign currency exposure in accordance with the policies set out below.

The Group's financial instruments comprise cash, borrowings, trade debtors and trade creditors that are used to finance the Group's operations. The Group also uses derivatives, principally interest rate and currency swaps and forward currency contracts, to manage interest rate and currency risks arising from the Group's operations. The Group does not trade in financial instruments. The Group's treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates and to minimise the Group's financial risks. The Board approves any changes to the policy.

2005 Maturity profile of principal borrowings  
Year ending 30 September



**OPERATING AND FINANCIAL REVIEW**  
CONTINUED

#### Liquidity risk

The Group finances its borrowings from a number of sources including the bank and public and US private placement markets. During 2005, the Group amended the maturity date of its £550 million/\$850 million/€750 million syndicated bank facility from 2008 to 2010.

The maturity profile of the Group's principal borrowings at 30 September 2005 is shown left and the average life is 5.6 years. The Group's undrawn committed bank facilities at 30 September 2005 were £997 million.

#### Foreign currency risk

The Group's policy is to match its principal projected cash flows by currency, to actual or effective borrowings in the same currency. As currency earnings are generated, they are used to service and repay debt in the same currency. For the period of the currency loans, therefore, the objective is to achieve an effective foreign currency hedge in real economic terms. Where necessary, to implement this policy, currency swaps are taken out which, when applied to the actual currency liabilities, convert these to an effective amount borrowed by currency. A reconciliation of the 30 September 2005 actual currency liabilities to the effective amount borrowed is set out below.

Currency	Actual currency liabilities £m	Currency swaps £m	Effective amount borrowed £m
Sterling	812	(37)	775
US Dollar	659	226	885
Euro	512	(100)	412
Japanese Yen	120	(9)	111
Other currencies	434	(67)	367
<b>Total</b>	<b>2,537</b>	<b>13</b>	<b>2,550</b>

Analysed in notes 15 and 16 to the financial statements as:

		£m
Due within 1 year	Bank loans	19
	Loan notes	82
Due after more than 1 year	Bank loans	623
	Loan notes	487
	Bonds	1,339
<b>Total</b>		<b>2,550</b>

The borrowings in each currency give rise to foreign exchange differences on translation into sterling. As the borrowings are either less than, or equate to, the net investment in overseas operations, these exchange rate movements are treated as movements on reserves and recorded in the statement of total recognised gains and losses rather than in the profit and loss account.

Overseas earnings streams are translated at the average rate of exchange for the year. Fluctuations in exchange rates have given and will continue to give rise to translation differences. The business is, however, materially protected from any adverse economic or cash effects through the matching of cash flows to currency borrowings. The table below sets out the exchange rates used for major currencies for translating the 2005 and 2004 profit and loss accounts and balance sheets.

	Translation rate		Closing rate	
	2005	2004	2005	2004
Australian Dollar	<b>2.42</b>	2.47	<b>2.32</b>	2.50
Canadian Dollar	<b>2.26</b>	2.37	<b>2.05</b>	2.29
Danish Krone	<b>10.83</b>	10.94	<b>10.95</b>	10.84
Euro	<b>1.46</b>	1.47	<b>1.47</b>	1.46
Japanese Yen	<b>198.34</b>	194.98	<b>200.51</b>	199.44
Norwegian Krone	<b>11.76</b>	12.32	<b>11.54</b>	12.18
Swedish Krona	<b>13.35</b>	13.43	<b>13.67</b>	13.17
Swiss Franc	<b>2.25</b>	2.28	<b>2.28</b>	2.26
US Dollar	<b>1.85</b>	1.79	<b>1.77</b>	1.81

#### Interest rate risk

As detailed above, the Group has effective borrowings in a number of currencies and its policy is to ensure that, in the short term, it is not materially exposed to fluctuations in interest rates in its principal currencies. The Group implements this policy either by borrowing fixed rate debt or by using interest rate swaps so that at least 80% of the Group's projected debt is fixed for 1 year, reducing to 60% fixed for the second year and 40% fixed for the third year.

#### Shareholder return

The market price of the Group's ordinary shares at the close of the financial year was £2.06 (2004: £2.21).

#### Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.



**Andrew Martin**  
Group Finance Director

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMPASS GROUP PLC

We have audited the financial statements of Compass Group PLC for the year ended 30 September 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and related notes, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Remuneration Committee's Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Remuneration Committee's Report. Our responsibility is to audit the financial statements and the part of the Remuneration Committee's Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Committee's Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the Annual Report for the above year as described in the contents sections including the unaudited part of the Remuneration Committee's Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Committee's Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Committee's Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Committee's Report described as having been audited.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2005 and of the profit of the Group for the year then ended and the financial statements and the part of the Remuneration Committee's Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

### Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London  
29 November 2005

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
FOR THE YEAR ENDED 30 SEPTEMBER 2005

Compass Group PLC	Notes	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items £m	Total 2005 £m	Before goodwill amortisation £m	Goodwill amortisation £m	Total 2004 £m
Turnover							
Continuing operations		<b>12,636</b>	–	<b>12,636</b>	11,772	–	11,772
Acquisitions		<b>68</b>	–	<b>68</b>	–	–	–
Total turnover	2	<b>12,704</b>	–	<b>12,704</b>	11,772	–	11,772
Operating costs	3,4	<b>(11,995)</b>	<b>(409)</b>	<b>(12,404)</b>	(11,001)	(275)	(11,276)
Operating profit							
Continuing operations		<b>708</b>	<b>(409)</b>	<b>299</b>	771	(275)	496
Acquisitions		<b>1</b>	–	<b>1</b>	–	–	–
		<b>709</b>	<b>(409)</b>	<b>300</b>	771	(275)	496
Share of profits of associated undertakings							
Continuing operations	2	<b>2</b>	–	<b>2</b>	2	–	2
Discontinued operations	2	–	–	–	2	–	2
Total operating profit: Group and share of associated undertakings	2	<b>711</b>	<b>(409)</b>	<b>302</b>	775	(275)	500
Loss on disposal of businesses	4	–	<b>(1)</b>	<b>(1)</b>	–	–	–
Interest receivable and similar income		<b>4</b>	–	<b>4</b>	5	–	5
Interest payable and similar charges	6	<b>(134)</b>	–	<b>(134)</b>	(135)	–	(135)
Net interest		<b>(130)</b>	–	<b>(130)</b>	(130)	–	(130)
Profit on ordinary activities before taxation		<b>581</b>	<b>(410)</b>	<b>171</b>	645	(275)	370
Tax on profit on ordinary activities	7	<b>(134)</b>	–	<b>(134)</b>	(152)	–	(152)
Profit on ordinary activities after taxation		<b>447</b>	<b>(410)</b>	<b>37</b>	493	(275)	218
Equity minority interests		<b>(36)</b>	–	<b>(36)</b>	(38)	–	(38)
Profit for the financial year		<b>411</b>	<b>(410)</b>	<b>1</b>	455	(275)	180
Equity dividends	8	<b>(211)</b>	–	<b>(211)</b>	(200)	–	(200)
Amount transferred to/(from) reserves	20	<b>200</b>	<b>(410)</b>	<b>(210)</b>	255	(275)	(20)
Basic earnings per ordinary share	9			<b>0.0p</b>			8.3p
Basic earnings per ordinary share							
– excluding goodwill amortisation and exceptional items	9	<b>19.1p</b>			21.1p		
Diluted earnings per ordinary share	9			<b>0.0p</b>			8.3p
Diluted earnings per ordinary share							
– excluding goodwill amortisation and exceptional items	9	<b>19.0p</b>			21.0p		

**CONSOLIDATED STATEMENT OF TOTAL  
RECOGNISED GAINS AND LOSSES**  
FOR THE YEAR ENDED 30 SEPTEMBER 2005

Compass Group PLC	2005 £m	2004 £m
Profit for the financial year	<b>1</b>	180
Currency translation differences	<b>9</b>	1
Tax in profit and loss reserve relating to currency translation	<b>2</b>	(18)
<b>Total gains and losses recognised in the year</b>	<b>12</b>	163

**RECONCILIATION OF MOVEMENTS IN  
CONSOLIDATED SHAREHOLDERS' FUNDS**  
FOR THE YEAR ENDED 30 SEPTEMBER 2005

Compass Group PLC	2005 £m	2004 £m
Profit for the financial year	<b>1</b>	180
Dividends	<b>(211)</b>	(200)
	<b>(210)</b>	(20)
Currency translation differences	<b>9</b>	1
Tax in profit and loss reserve relating to currency translation	<b>2</b>	(18)
Issue of shares	<b>1</b>	10
Repurchase of shares	-	(69)
Purchase of own shares	-	(1)
Net reduction in shareholders' funds	<b>(198)</b>	(97)
Opening shareholders' funds	<b>2,482</b>	2,579
Closing shareholders' funds	<b>2,284</b>	2,482

**CONSOLIDATED BALANCE SHEET**  
AS AT 30 SEPTEMBER 2005

Compass Group PLC	Notes	2005 £m	2004 £m
Fixed assets			
Intangible assets	10	<b>3,969</b>	4,223
Tangible assets	11	<b>1,777</b>	1,805
Investments	12	<b>51</b>	30
		<b>5,797</b>	6,058
Current assets			
Stocks	13	<b>263</b>	279
Debtors: amounts falling due within 1 year	14	<b>1,692</b>	1,568
amounts falling due after more than 1 year	14	<b>276</b>	287
Cash at bank and in hand		<b>318</b>	266
		<b>2,549</b>	2,400
Creditors: amounts falling due within 1 year	15	<b>(3,000)</b>	(2,872)
Net current liabilities		<b>(451)</b>	(472)
Total assets less current liabilities		<b>5,346</b>	5,586
Creditors: amounts falling due after more than 1 year	16	<b>(2,591)</b>	(2,665)
Provisions for liabilities and charges	18	<b>(398)</b>	(385)
Equity minority interests		<b>(73)</b>	(54)
Net assets		<b>2,284</b>	2,482
Capital and reserves			
Called up share capital	19	<b>216</b>	216
Share premium account	20	<b>94</b>	93
Capital redemption reserve	20	<b>9</b>	9
Merger reserve	20	<b>4,170</b>	4,170
Profit and loss reserve	20	<b>(2,204)</b>	(2,005)
Less: own shares	20	<b>(1)</b>	(1)
Total equity shareholders' funds		<b>2,284</b>	2,482

Approved by the Board of Directors on 29 November 2005 and signed on their behalf by

**Michael J Bailey**  
Director

**Andrew D Martin**  
Director

**COMPANY BALANCE SHEET**  
AS AT 30 SEPTEMBER 2005

Compass Group PLC	Notes	2005 £m	2004 £m
Fixed assets			
Investments	12	<b>785</b>	785
Current assets			
Debtors: amounts falling due within 1 year	14	<b>4,251</b>	4,138
Cash at bank and in hand		<b>71</b>	–
		<b>4,322</b>	4,138
Creditors: amounts falling due within 1 year	15	<b>(1,801)</b>	(1,686)
Net current assets		<b>2,521</b>	2,452
Total assets less current liabilities		<b>3,306</b>	3,237
Creditors: amounts falling due after more than 1 year	16	<b>(2,507)</b>	(2,493)
Net assets		<b>799</b>	744
Capital and reserves			
Called up share capital	19	<b>216</b>	216
Share premium account	20	<b>94</b>	93
Capital redemption reserve	20	<b>9</b>	9
Profit and loss reserve	20	<b>480</b>	426
Total equity shareholders' funds		<b>799</b>	744

Approved by the Board of Directors on 29 November 2005 and signed on their behalf by

**Michael J Bailey**  
Director

**Andrew D Martin**  
Director

**CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 30 SEPTEMBER 2005

Compass Group PLC	2005 £m	2004 £m
Net cash inflow from operating activities (note I)	<b>931</b>	735
Dividends from associated undertakings	<b>4</b>	4
Returns on investments and servicing of finance		
Interest received	<b>4</b>	5
Interest paid	<b>(161)</b>	(134)
Proceeds from termination of interest rate swaps	-	104
Interest element of finance lease rental payments	<b>(2)</b>	(2)
Dividends paid to minority interests	<b>(29)</b>	(30)
Net cash outflow from returns on investments and servicing of finance	<b>(188)</b>	(57)
Taxation		
Tax received	<b>23</b>	5
Tax paid	<b>(131)</b>	(112)
Net tax paid	<b>(108)</b>	(107)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	<b>(339)</b>	(365)
Sale of tangible fixed assets	<b>48</b>	36
Total capital expenditure and financial investment	<b>(291)</b>	(329)
Free cash flow	<b>348</b>	246
Acquisitions and disposals (note IV)		
Purchase of subsidiary companies and investments in associated undertakings	<b>(124)</b>	(167)
Net proceeds from businesses held for resale	-	19
Sale of minority interest	-	3
Sale of subsidiary companies and associated undertakings	<b>75</b>	64
Total acquisitions and disposals	<b>(49)</b>	(81)
Equity dividends paid	<b>(205)</b>	(249)
	<b>(254)</b>	(330)
Net cash inflow/(outflow) before management of liquid resources and financing	<b>94</b>	(84)
Financing		
Issue of ordinary share capital	<b>1</b>	10
Repurchase of share capital	-	(91)
Purchase of own shares, net	-	(1)
Debt due within 1 year:		
Decrease in bank loans and loan notes	<b>(61)</b>	(26)
Debt due after 1 year:		
Increase in bank loans and loan notes	<b>11</b>	270
Capital element of finance lease rentals	<b>(16)</b>	(21)
Net cash (outflow)/inflow from financing	<b>(65)</b>	141
Increase in cash in the year	<b>29</b>	57
Reconciliation of net cash flow to movement in net debt (note II)		
Increase in cash in the year	<b>29</b>	57
Cash outflow/(inflow) from change in debt and lease finance	<b>66</b>	(223)
Change in net debt resulting from cash flows	<b>95</b>	(166)
Loans acquired with subsidiaries and changes in finance leases	<b>(12)</b>	(19)
Effect of foreign exchange rate changes	<b>(26)</b>	120
Movement in net debt in the year	<b>57</b>	(65)
Opening net debt	<b>(2,373)</b>	(2,308)
Closing net debt	<b>(2,316)</b>	(2,373)

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2005 £m	2004 £m
I Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit before goodwill amortisation and exceptional items	<b>711</b>	775
Depreciation excluding exceptional items	<b>293</b>	258
EBITDA	<b>1,004</b>	1,033
Profit on disposal of fixed assets	<b>(9)</b>	(8)
Profit on disposal of businesses	-	(10)
Share of profits of associated undertakings	<b>(2)</b>	(4)
Expenditure in respect of provisions for liabilities and charges	<b>(40)</b>	(73)
Amounts charged in respect of provisions	<b>29</b>	28
Increase in stocks	<b>(4)</b>	(57)
Increase in debtors	<b>(119)</b>	(110)
Increase/(decrease) in creditors	<b>72</b>	(64)
Net cash inflow from operating activities before exceptional items	<b>931</b>	735

The comparatives for amounts charged in respect of provisions and increase/(decrease) in creditors have been changed from those previously published to reflect changes in disclosure analysis.

	1 Oct 2004 £m	Cash flow £m	Exchange movements £m	Acquisitions (excluding cash and overdrafts) £m	Other non-cash changes £m	30 Sep 2005 £m
II Analysis of net debt:						
Cash at bank and in hand	<b>266</b>	<b>48</b>	<b>4</b>	-	-	<b>318</b>
Overdrafts	<b>(14)</b>	<b>(19)</b>	-	-	-	<b>(33)</b>
	<b>252</b>	<b>29</b>	<b>4</b>	-	-	<b>285</b>
Debt due within 1 year	<b>(85)</b>	<b>61</b>	-	-	<b>(77)</b>	<b>(101)</b>
Debt due after 1 year	<b>(2,486)</b>	<b>(11)</b>	<b>(29)</b>	-	<b>77</b>	<b>(2,449)</b>
Finance leases	<b>(54)</b>	<b>16</b>	<b>(1)</b>	-	<b>(12)</b>	<b>(51)</b>
	<b>(2,625)</b>	<b>66</b>	<b>(30)</b>	-	<b>(12)</b>	<b>(2,601)</b>
Total	<b>(2,373)</b>	<b>95</b>	<b>(26)</b>	-	<b>(12)</b>	<b>(2,316)</b>

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**  
CONTINUED

	Purchases 2005 £m	Disposals 2005 £m	Purchases 2004 £m	Disposals 2004 £m
<b>III Purchase and disposal of subsidiary companies and investments in associated undertakings:</b>				
Net assets acquired/(disposed of):				
Tangible fixed assets	–	<b>(57)</b>	28	(1)
Investments	<b>3</b>	–	7	(47)
Stocks	–	<b>(3)</b>	4	(1)
Debtors	<b>8</b>	<b>(8)</b>	25	(1)
Cash	<b>2</b>	–	21	–
Loans	–	–	(7)	–
Leases	–	–	(3)	–
Creditors	<b>(10)</b>	<b>10</b>	(56)	1
Provisions	<b>(3)</b>	–	(5)	–
Tax	–	<b>(2)</b>	6	–
Minority interests	<b>(6)</b>	–	6	–
	<b>(6)</b>	<b>(60)</b>	26	(49)
Loss on disposal	–	<b>1</b>	–	2
Goodwill acquired/(disposed of)	<b>115</b>	<b>(31)</b>	162	(17)
	<b>109</b>	<b>(90)</b>	188	(64)
Satisfied by:				
Cash consideration payable/(receivable)	<b>105</b>	<b>(75)</b>	169	(64)
Investment in associated undertaking	–	<b>(15)</b>	–	–
Deferred consideration payable	<b>4</b>	–	19	–
	<b>109</b>	<b>(90)</b>	188	(64)
<b>IV Analysis of net flow of cash in respect of the purchase and disposal of subsidiary companies and investments in associated undertakings:</b>				
Cash consideration paid/(received net of liabilities settled)	<b>105</b>	<b>(75)</b>	169	(64)
Cash acquired	<b>(2)</b>	–	(21)	–
	<b>103</b>	<b>(75)</b>	148	(64)
Deferred consideration and costs relating to previous acquisitions	<b>21</b>	–	19	–
	<b>124</b>	<b>(75)</b>	167	(64)

The cash effect of the disposals consists of £48 million net cash consideration on the disposal of 75% of Au Bon Pain in North America, £30 million net cash consideration on the disposal of the Gatwick Meridien hotel in the UK and £3 million of costs relating to previous disposals.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with UK law and applicable accounting standards.

#### Specific accounting policies

The particular policies adopted are described below.

#### A. Accounting convention and basis of consolidation

The financial statements are prepared under the historical cost convention. The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries and associated undertakings.

#### B. Goodwill

Purchased goodwill arising on acquisitions made since 1 October 1998 is capitalised in local currency and amortised through the profit and loss account on a straight line basis over its estimated useful life up to a maximum of 20 years, in accordance with FRS 10. Provision is made for any impairment. Purchased goodwill arising on acquisitions prior to 1 October 1998, which was previously written off to a separate goodwill reserve, remains written off but has now been transferred to the profit and loss account reserve, in accordance with the transitional arrangements of FRS 10. This goodwill will be charged to the profit and loss account as appropriate on the subsequent disposal of the business to which it relates.

#### C. Foreign currencies

The assets and liabilities of foreign subsidiary companies are translated into sterling at the rates of exchange ruling at the year end. Gains and losses resulting from the realignment of opening foreign currency balances to the year end rates including external loans and intragroup long-term loans are treated as movements on reserves to the extent that such loans are used to finance or provide a hedge against Group equity investments in foreign enterprises. Where intragroup loans are considered to be as permanent as equity they are treated as part of the investing company's net investment and exchange differences taken to reserves. Other gains and losses resulting from the realignment of opening foreign currency balances to the year end rates are taken to the profit and loss account.

The results of foreign subsidiary companies are translated into sterling at the average rates of exchange for the accounting year. Gains or losses resulting from the translation of these results from the average rates to the year end rates are treated as movements on reserves. All other exchange differences are dealt with through the profit and loss account.

#### D. Stocks

Stocks are valued at the lower of cost and net realisable value.

#### E. Turnover

Turnover is recognised in the period in which services are provided in accordance with the terms of the contractual relationships with third parties. Turnover excludes value added tax and similar sales taxes.

#### F. Rebates and other amounts received from suppliers

Rebates and other amounts received from suppliers are treated as a deduction from the related operating costs or cost of assets acquired.

#### G. Tangible fixed assets and depreciation

Fixed assets are carried at cost less provision for impairment and depreciation, which is provided on their book values at rates calculated to write down each asset to its residual value over its estimated remaining useful life on a straight line basis, within the following ranges:

- freehold buildings and long-term leasehold property; 2% per annum – freehold land is not depreciated;
- short-term leasehold property: the life of the lease;
- plant and machinery: 8% to 33% per annum; and
- fixtures and fittings: 8% to 33% per annum.

#### H. Investments

Except as stated below, investments held as fixed assets are stated at cost, less any provision for impairment in value, and investments held by the Company are stated at historical currency cost and translated into sterling in accordance with the policy set out in note C above.

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of the pre-tax profits and attributable taxation of the associated undertakings. In the consolidated balance sheet, the investment in associated undertakings is shown at the Group's share of the net assets of the associated undertakings. Goodwill arising on the acquisition of an associate is capitalised as part of the carrying amount in the consolidated balance sheet and amortised over its estimated useful life. Prior to the implementation of FRS 9 and FRS 10, such goodwill was written off to reserves as a matter of accounting policy (see note B above).

#### I. Pension costs and other post-retirement benefits

Defined contribution pension costs charged to the profit and loss account represent contributions payable in respect of the period.

Pension costs and other post-retirement benefits, which are periodically calculated by professionally qualified actuaries, are charged against profits so that the expected costs of providing pensions are recognised during the period in which benefit is derived from the employees' services.

Any pension surplus or deficit identified at the date of the last actuarial valuation is being amortised over the average estimated remaining service lives of employees in accordance with SSAP 24.

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

**1 Accounting policies** continued

**J. Tax**

Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The Group has adopted the policy of discounting deferred tax balances as permitted by FRS 19. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

**K. Leases**

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the leases.

**L. Financial instruments**

Financial assets and liabilities, including derivative financial instruments, denominated in foreign currencies are translated into sterling at year end exchange rates. Gains and losses on translation into sterling are dealt with in accordance with the policy set out in note C above.

Interest rate swaps are not revalued to fair value or shown on the balance sheet at the year end. Income and expenses arising from interest rate swaps are matched against the interest costs arising on the loans for which they are providing a hedge.

Premiums, discounts and front-end fees on financial assets and liabilities are amortised through the profit and loss account over the life of the asset or liability.

Interest rate swap monetisation receipts are deferred and amortised through the profit and loss account over the life of the related swap.

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

<b>2 Turnover, operating profit and net assets</b>	Continuing operations £m	Acquisitions £m	2005 £m	2004 £m
Turnover				
Foodservice:				
Geographical analysis:				
– North America	<b>3,885</b>	<b>52</b>	<b>3,937</b>	3,531
– United Kingdom	<b>3,292</b>	–	<b>3,292</b>	3,092
– Continental Europe and rest of the world	<b>5,459</b>	<b>16</b>	<b>5,475</b>	5,149
	<b>12,636</b>	<b>68</b>	<b>12,704</b>	11,772
Total operating profit: Group and share of associated undertakings Before goodwill amortisation and exceptional items				
Foodservice:				
– The Company and its subsidiary undertakings				
Continuing	<b>708</b>	<b>1</b>	<b>709</b>	771
– Associated undertakings				
Continuing	<b>2</b>	–	<b>2</b>	2
Discontinued	–	–	–	2
	<b>710</b>	<b>1</b>	<b>711</b>	775
Geographical analysis:				
– North America				
The Company and its subsidiary undertakings				
Continuing	<b>206</b>	<b>1</b>	<b>207</b>	190
Associated undertakings	–	–	–	–
– United Kingdom				
The Company and its subsidiary undertakings	<b>205</b>	–	<b>205</b>	294
Associated undertakings	<b>1</b>	–	<b>1</b>	1
– Continental Europe and rest of the world				
The Company and its subsidiary undertakings	<b>297</b>	–	<b>297</b>	287
Associated undertakings				
Continuing	<b>1</b>	–	<b>1</b>	1
Discontinued	–	–	–	2
	<b>710</b>	<b>1</b>	<b>711</b>	775
Amortisation of goodwill – continuing operations				
– North America	<b>(49)</b>	–	<b>(49)</b>	(48)
– United Kingdom	<b>(157)</b>	–	<b>(157)</b>	(156)
– Continental Europe and rest of the world	<b>(63)</b>	–	<b>(63)</b>	(71)
	<b>(269)</b>	–	<b>(269)</b>	(275)
Exceptional items – continuing operations				
– Continental Europe and rest of the world (note 4)	<b>(140)</b>	–	<b>(140)</b>	–
Total goodwill amortisation and exceptional items	<b>(409)</b>	–	<b>(409)</b>	(275)
Total operating profit: Group and share of associated undertakings	<b>301</b>	<b>1</b>	<b>302</b>	500

Total operating profit after goodwill amortisation and exceptional items for the year ended 30 September 2005 relates to foodservice analysed as North America £158 million, UK £49 million and Continental Europe and the rest of the world £95 million (2004: £142 million, £139 million and £219 million respectively).

Certain minor reclassifications have been made to the previously reported geographical analysis of operations to align with the Group's current management structures.

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

**2 Turnover, operating profit and net assets continued**

	2005 £m	2004 £m
Net assets		
Foodservice:		
– North America	1,117	1,108
– United Kingdom	2,534	2,665
– Continental Europe and rest of the world	949	1,082
	<b>4,600</b>	4,855
Net debt	<b>(2,316)</b>	(2,373)
	<b>2,284</b>	2,482

**3 Operating costs**

	Continuing operations £m	Acquisitions £m	2005 £m	Continuing operations 2004 £m
Movement in stocks of finished goods and work in progress	16	–	16	28
Raw materials and consumables	4,780	28	4,808	4,406
Other external charges	1,949	6	1,955	1,704
Staff costs	4,931	32	4,963	4,605
Depreciation of tangible fixed assets:				
– owned assets	286	1	287	245
– leased assets	11	–	11	13
Amortisation and other amounts written off intangible fixed assets:				
– amortisation of goodwill	269	–	269	275
– impairment of goodwill (note 4)	95	–	95	–
	<b>12,337</b>	<b>67</b>	<b>12,404</b>	11,276

	2005 £m	2004 £m
Other external charges include:		
Property lease rentals	81	81
Other occupancy rentals	145	123
Other asset rentals	76	73
Fees paid to the auditors:		
Audit and further assurance services	4	4
Tax services	2	2
	<b>6</b>	6

Fees paid to the Group auditors relate to fees for the Group and subsidiary audits of £3.6 million (2004: £3.6 million), further assurance services of £0.6 million (2004: £0.3 million), tax compliance services of £0.5 million (2004: £0.4 million), tax advisory services of £1.8 million (2004: £1.7 million) and other services of £nil (2004: £0.2 million).

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The consolidated profit for the year includes a profit after tax of £265 million (2004: £223 million) which is dealt with in the accounts of the parent company.

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

<b>4 Exceptional items</b>	2005 £m	2004 £m
Charged within operating profit:		
Middle East military business	<b>45</b>	–
Impairment of goodwill – Italy	<b>95</b>	–
	<b>140</b>	–
Charged after operating profit:		
Exceptional loss – disposal of businesses	<b>1</b>	–

The Group is reducing the scale of its military catering operations in the Middle East. Related asset write-downs and provisions have resulted in an exceptional charge of £45 million. In addition, the goodwill arising on the acquisition of Onama in Italy was impaired following a review of the profitability of the underlying business. Value in use was calculated by discounting cash flows at a rate of 7.2%.

The Group also disposed of 75% of Au Bon Pain in North America and the Gatwick Meridien hotel in the UK and paid further costs relating to previous disposals resulting in a net loss of £1 million.

The tax effect of exceptional items is shown in note 7.

<b>5 Employees</b>	2005 Number	2004 Number
The average number of employees, including part-time employees, was:		
Foodservice:		
United Kingdom	<b>87,804</b>	85,822
Overseas	<b>322,270</b>	316,553
	<b>410,074</b>	402,375

	2005 £m	2004 £m
The aggregate remuneration of all employees including directors comprised:		
Wages and salaries	<b>4,262</b>	3,963
Social security costs	<b>623</b>	572
Other pension costs	<b>78</b>	70
	<b>4,963</b>	4,605

Information on directors' remuneration, share options, long-term incentive plans, pension contributions and entitlements is set out in the audited section of the Remuneration Committee's Report on pages 30 to 35 and forms part of these financial statements.

<b>6 Interest payable and similar charges</b>	2005 £m	2004 £m
Bank loans and overdrafts	<b>23</b>	34
Other loans	<b>109</b>	99
Finance lease interest	<b>2</b>	2
	<b>134</b>	135

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

	2005 £m	2004 £m
<b>7 Tax on profit on ordinary activities</b>		
UK corporation tax at 30% (2004: 30%)	<b>51</b>	49
Overseas tax	<b>109</b>	105
UK tax on share of profits of associated undertakings	<b>1</b>	1
Overseas tax on share of profits of associated undertakings	<b>1</b>	2
Current tax charge on profit before goodwill amortisation and exceptional items	<b>162</b>	157
UK deferred tax	<b>8</b>	18
Impact of discounting UK deferred tax	<b>(1)</b>	(1)
Overseas deferred tax	<b>27</b>	17
Impact of discounting overseas deferred tax	<b>(12)</b>	(12)
	<b>184</b>	179
Adjustments in respect of prior years:		
UK corporation tax	<b>(8)</b>	10
Overseas tax	<b>(51)</b>	(32)
UK deferred tax	<b>4</b>	(2)
Overseas deferred tax	<b>5</b>	(3)
	<b>(50)</b>	(27)
Total tax charge before exceptional items	<b>134</b>	152
Exceptional items:		
UK corporation tax	<b>(2)</b>	–
UK deferred tax	<b>5</b>	–
Impact of discounting UK deferred tax	<b>(2)</b>	–
Overseas tax	<b>3</b>	–
Overseas deferred tax	<b>(4)</b>	–
Total exceptional tax	<b>–</b>	–
Tax on profit on ordinary activities after exceptional items	<b>134</b>	152

The main reasons for the prior year credit of £50 million are the recognition of reliefs associated with past acquisitions and also the successful resolution during the course of the year of several significant issues, principally overseas.

**Factors affecting the future tax charge**

In 2006 the Group will report under IFRS. The main factors affecting the future tax charge under IFRS are addressed in the Financial Review on pages 6 to 13.

	2005 %	2004 %
<b>Reconciliation of the UK statutory tax rate to the effective current tax rate</b>		
Tax charge on profit on ordinary activities before goodwill amortisation and exceptional items at the UK statutory rate of 30%	<b>30</b>	30
Increase/(decrease) resulting from:		
Permanent items	<b>2</b>	1
Amortisation of tax deductible goodwill	<b>(2)</b>	(2)
Overseas taxes at higher rates	<b>3</b>	2
Losses brought forward	<b>(2)</b>	(5)
Capital allowances for the period in excess of depreciation charged	<b>–</b>	(1)
Tax credits	<b>(1)</b>	–
Other timing differences	<b>(2)</b>	(1)
Current tax rate on profit before goodwill amortisation and exceptional items	<b>28</b>	24
Non-deductible goodwill amortisation and exceptional items	<b>67</b>	18
Current tax rate on profit before taxation	<b>95</b>	42

The current tax rate on profit before taxation above represents the current tax charge on profit before goodwill amortisation and exceptional items, £162 million (2004: £157 million) plus current taxes within total exceptional tax, net £1 million (2004: £nil) as a percentage of the profit on ordinary activities before taxation, £171 million (2004: £370 million).

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

<b>8 Dividends</b>	Per share	2005 £m	Per share	2004 £m
Dividends on ordinary shares of 10p each:				
Interim	<b>3.3p</b>	<b>71</b>	3.1p	66
Proposed final	<b>6.5p</b>	<b>140</b>	6.2p	134
	<b>9.8p</b>	<b>211</b>	9.3p	200

	Attributable profit 2005 £m	Average number of shares 2005 Millions	Earnings per share 2005 Pence	Attributable profit 2004 £m	Average number of shares 2004 Millions	Earnings per share 2004 Pence
<b>9 Earnings per share</b>						
Basic earnings per share	<b>1</b>	<b>2,156</b>	<b>0.0</b>	180	2,158	8.3
Effect of dilutive share options	–	<b>2</b>	<b>0.0</b>	–	7	0.0
Diluted earnings per share	<b>1</b>	<b>2,158</b>	<b>0.0</b>	180	2,165	8.3
Reconciliation of earnings per share to exclude goodwill amortisation and exceptional items						
Basic earnings per share	<b>1</b>	<b>2,156</b>	<b>0.0</b>	180	2,158	8.3
Effect of goodwill amortisation (net of tax)	<b>269</b>	–	<b>12.6</b>	275	–	12.8
Effect of goodwill impairment (net of tax)	<b>95</b>	–	<b>4.4</b>	–	–	–
Effect of exceptional items (net of tax)	<b>46</b>	–	<b>2.1</b>	–	–	–
Basic earnings per share excluding goodwill amortisation and exceptional items	<b>411</b>	<b>2,156</b>	<b>19.1</b>	455	2,158	21.1
Diluted earnings per share	<b>1</b>	<b>2,158</b>	<b>0.0</b>	180	2,165	8.3
Effect of goodwill amortisation (net of tax)	<b>269</b>	–	<b>12.5</b>	275	–	12.7
Effect of goodwill impairment (net of tax)	<b>95</b>	–	<b>4.4</b>	–	–	–
Effect of exceptional items (net of tax)	<b>46</b>	–	<b>2.1</b>	–	–	–
Diluted earnings per share excluding goodwill amortisation and exceptional items	<b>411</b>	<b>2,158</b>	<b>19.0</b>	455	2,165	21.0

Earnings per share excluding goodwill amortisation and exceptional items has been shown to disclose the impact of these on underlying earnings.

<b>10 Intangible fixed assets</b>	£m
Goodwill – Group	
Cost	
At 1 October 2004	<b>5,244</b>
Additions arising from acquisitions	<b>115</b>
Disposals	<b>(43)</b>
Currency adjustment	<b>35</b>
At 30 September 2005	<b>5,351</b>
Amortisation	
At 1 October 2004	<b>1,021</b>
Charge for the year	<b>269</b>
Impairment (note 4)	<b>95</b>
Disposals	<b>(12)</b>
Currency adjustment	<b>9</b>
At 30 September 2005	<b>1,382</b>
Net book amount	
At 30 September 2005	<b>3,969</b>
At 30 September 2004	4,223

Additions to goodwill arising from acquisitions relate to the acquisitions shown in note 21. Goodwill on acquisitions is being amortised over periods of up to 20 years which are considered to be the estimated useful lives.

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	Freehold land and buildings £m	Long leasehold property £m	Short leasehold property £m	Plant and machinery £m	Fixtures and fittings £m	Total £m
<b>11 Tangible fixed assets</b>						
Group						
Cost						
At 1 October 2004	493	61	391	1,447	770	3,162
Currency adjustment	-	-	5	18	8	31
Additions	14	1	21	203	112	351
Disposals	(9)	(3)	(7)	(154)	(46)	(219)
Business disposals	-	-	(25)	(53)	(6)	(84)
Transfer between categories	-	1	5	(18)	12	-
At 30 September 2005	498	60	390	1,443	850	3,241
Depreciation						
At 1 October 2004	95	7	69	796	390	1,357
Currency adjustment	-	-	2	10	4	16
Charge for the year	11	2	14	177	89	293
Exceptional item	-	-	-	5	-	5
Disposals	-	-	(1)	(133)	(46)	(180)
Business disposals	-	-	(3)	(21)	(3)	(27)
Transfer between categories	-	1	5	(6)	-	-
At 30 September 2005	106	10	86	828	434	1,464
Net book amount						
At 30 September 2005	392	50	304	615	416	1,777
At 30 September 2004	398	54	322	651	380	1,805

The net book amount of the Group's tangible fixed assets includes, in respect of assets held under finance leases, freehold buildings and long and short leasehold property £9 million (2004: £9 million), plant and machinery £37 million (2004: £34 million) and fixtures and fittings £3 million (2004: £3 million).

	Group Investment in associated undertakings £m	Company Investment in subsidiary undertakings £m
<b>12 Investments held as fixed assets</b>		
Cost and net book value		
At 1 October 2004	30	785
Additions	4	-
Investment in associated undertaking retained on disposal of subsidiary	15	-
Share of retained profits less losses	-	-
Dividends received	(4)	-
Currency and other adjustments	6	-
At 30 September 2005	51	785

Investment in associated undertakings includes £15 million being the remaining 25% of the Group's share of Au Bon Pain which is incorporated in the USA and is unlisted.

	2005 £m	2004 £m
<b>13 Stocks</b>		
Group		
Food and beverage stocks	185	207
Other stocks	78	72
	<b>263</b>	<b>279</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
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	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>14 Debtors</b>				
Amounts falling due within 1 year				
Trade debtors	<b>1,318</b>	1,186	–	–
Amounts owed by subsidiary companies	–	–	<b>4,217</b>	4,089
Amounts owed by associated undertakings	<b>2</b>	1	–	–
Group relief receivable	–	–	<b>34</b>	49
Overseas tax recoverable	<b>9</b>	12	–	–
Other debtors	<b>141</b>	153	–	–
Prepayments and accrued income	<b>222</b>	216	–	–
	<b>1,692</b>	1,568	<b>4,251</b>	4,138
Amounts falling due after more than 1 year				
Other debtors	<b>199</b>	189	–	–
Overseas tax recoverable	–	3	–	–
Deferred tax	<b>77</b>	95	–	–
	<b>276</b>	287	–	–

Other debtors includes an amount of £7,000 which is owed by Alain Dupuis, who was a director at 30 September 2005.

**Deferred tax**

Deferred tax has been provided throughout the Group in accordance with the accounting policy shown in note 1(J).

The closing total deferred tax balance is analysed as follows:

	Provided	
	2005 £m	2004 £m
Deferred tax analysis		
Group		
<b>Deferred tax assets</b>		
UK capital allowances in excess of depreciation	<b>(10)</b>	(10)
UK short-term timing differences	<b>73</b>	72
UK other timing differences	<b>(7)</b>	–
Overseas tax deductible intangible assets	<b>(80)</b>	(80)
Overseas tax depreciation in excess of book depreciation	<b>(18)</b>	(17)
Overseas short-term timing differences	<b>46</b>	60
Discount on UK and overseas timing differences	<b>73</b>	70
	<b>77</b>	95
<b>Deferred tax liabilities (note 18)</b>		
Overseas tax depreciation in excess of book depreciation	<b>(17)</b>	–
Net deferred tax	<b>60</b>	95

	Group £m
The movements on total deferred tax are as follows:	
At 1 October 2004	<b>95</b>
Arising from acquisitions	<b>(1)</b>
Arising from disposals	<b>(3)</b>
Charged to profit and loss account	<b>(30)</b>
Credited to profit and loss reserve	<b>3</b>
Other movements	<b>(4)</b>
At 30 September 2005	<b>60</b>

The Group has deferred tax assets of £80 million (2004: £73 million) that have not been recognised as the timing of recovery is uncertain. The Company has an unprovided deferred tax asset of £nil (2004: £13 million).

**NOTES TO THE FINANCIAL STATEMENTS**  
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	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>15 Creditors – amounts falling due within 1 year</b>				
Loan notes	<b>82</b>	19	<b>54</b>	–
Bank loans	<b>19</b>	66	<b>5</b>	46
Bank overdrafts	<b>33</b>	14	<b>272</b>	225
Obligations under finance leases	<b>15</b>	16	–	–
Trade creditors	<b>1,035</b>	926	–	–
Amounts owed to subsidiary companies	–	–	<b>1,256</b>	1,198
Amounts owed to associated undertakings	<b>2</b>	2	–	–
Corporation tax	<b>232</b>	211	–	–
Overseas tax	<b>101</b>	142	–	–
Other tax and social security costs	<b>220</b>	203	–	–
Other creditors	<b>258</b>	264	–	–
Deferred consideration	<b>13</b>	14	–	–
Accruals and deferred income	<b>850</b>	861	<b>74</b>	83
Proposed dividend	<b>140</b>	134	<b>140</b>	134
	<b>3,000</b>	2,872	<b>1,801</b>	1,686
	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>16 Creditors – amounts falling due after more than 1 year</b>				
Bonds	<b>1,339</b>	1,348	<b>1,306</b>	1,312
Loan notes	<b>487</b>	550	<b>467</b>	510
Bank loans	<b>623</b>	588	<b>675</b>	591
Obligations under finance leases	<b>36</b>	38	–	–
Other creditors	<b>40</b>	44	–	–
Deferred consideration	<b>15</b>	27	–	–
Accruals and deferred income	<b>51</b>	70	<b>59</b>	80
	<b>2,591</b>	2,665	<b>2,507</b>	2,493

All amounts due under bonds, loan notes and bank facilities are shown net of unamortised issue costs.

Bonds are unsecured and consist of the following:

- Euro Eurobond with nominal value €750 million redeemable in 2009 and bearing interest at 6.0% per annum
- Sterling Eurobond with nominal value £200 million redeemable in 2010 and bearing interest at 7.125% per annum
- Sterling Eurobond with nominal value £325 million redeemable in 2012 and bearing interest at 6.375% per annum
- Sterling Eurobond with nominal value £250 million redeemable in 2014 and bearing interest at 7.0% per annum.

The bond redeemable in 2014 is recorded at its fair value to the Group on acquisition in 2000.

The Group has fixed term, fixed interest private placements totalling US\$991 million (£560 million) at interest rates between 5.11% and 7.955%. US\$618 million (£349 million) is repayable in 5 to 10 years.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**16 Creditors – amounts falling due after more than 1 year** continued

Maturity of financial liabilities and other creditors falling due after more than 1 year as at 30 September 2005 is as follows:

	2005				2004			
	Bonds and loan notes £m	Loans and overdrafts £m	Other £m	Total £m	Bonds and loan notes £m	Loans and overdrafts £m	Other £m	Total £m
<b>Group</b>								
In more than 1 year but not more than 2 years	<b>30</b>	<b>29</b>	<b>98</b>	<b>157</b>	75	5	79	159
In more than 2 years but not more than 5 years	<b>818</b>	<b>589</b>	<b>35</b>	<b>1,442</b>	627	574	82	1,283
In more than 5 years	<b>978</b>	<b>5</b>	<b>9</b>	<b>992</b>	1,196	9	18	1,223
	<b>1,826</b>	<b>623</b>	<b>142</b>	<b>2,591</b>	1,898	588	179	2,665
In 1 year or less, or on demand	<b>82</b>	<b>52</b>	<b>28</b>	<b>162</b>	19	80	30	129
	<b>1,908</b>	<b>675</b>	<b>170</b>	<b>2,753</b>	1,917	668	209	2,794

	2005				2004			
	Bonds and loan notes £m	Loans and overdrafts £m	Other £m	Total £m	Bonds and loan notes £m	Loans and overdrafts £m	Other £m	Total £m
<b>Company</b>								
In more than 1 year but not more than 2 years	<b>27</b>	<b>5</b>	<b>18</b>	<b>50</b>	53	5	22	80
In more than 2 years but not more than 5 years	<b>817</b>	<b>665</b>	<b>34</b>	<b>1,516</b>	627	577	46	1,250
In more than 5 years	<b>929</b>	<b>5</b>	<b>7</b>	<b>941</b>	1,142	9	12	1,163
	<b>1,773</b>	<b>675</b>	<b>59</b>	<b>2,507</b>	1,822	591	80	2,493
In 1 year or less, or on demand	<b>54</b>	<b>277</b>	<b>–</b>	<b>331</b>	–	271	–	271
	<b>1,827</b>	<b>952</b>	<b>59</b>	<b>2,838</b>	1,822	862	80	2,764

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>Bank loans</b>				
Repayable by instalments in more than 5 years	<b>5</b>	9	<b>5</b>	9
Repayable by instalments within 5 years	<b>24</b>	23	<b>23</b>	23
Less: amounts falling due within 1 year	<b>(5)</b>	(5)	<b>(5)</b>	(5)
Amounts repayable by instalments falling due after more than 1 year	<b>24</b>	27	<b>23</b>	27
Repayable otherwise than by instalments within 5 years	<b>613</b>	622	<b>652</b>	605
Less: amounts falling due within 1 year	<b>(14)</b>	(61)	<b>–</b>	(41)
Amounts repayable otherwise than by instalments falling due after more than 1 year	<b>599</b>	561	<b>652</b>	564

The Group had the following undrawn committed borrowing facilities at 30 September:

	2005 £m	2004 £m
<b>Expiry date:</b>		
In more than 2 years but not more than 5 years	<b>997</b>	971
	<b>997</b>	971

**NOTES TO THE FINANCIAL STATEMENTS**  
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**17 Financial Instruments**

A discussion of the Group's objectives, policies and strategies with regard to financial instruments can be found in the Financial Review on pages 6 to 13. Short-term debtors and creditors arising directly from the Group's operations are excluded from the following disclosures, as permitted by FRS 13.

The disclosures in notes (a) and (b) below have been made after taking account of interest rate swaps, currency swaps and forward contracts.

**(a) Interest rate and currency of financial liabilities**

	Deferred consideration £m	Finance leases £m	Other financial liabilities £m	Fixed rate borrowings £m	Floating rate borrowings £m	Total gross borrowings £m	Fixed rate borrowings	
							Weighted average interest rate %	Weighted average time for which rate is fixed Years
<b>30 September 2005</b>								
Sterling	<b>11</b>	<b>2</b>	<b>7</b>	<b>50</b>	<b>725</b>	<b>775</b>	<b>7.1%</b>	<b>2.0</b>
US Dollar	<b>11</b>	<b>25</b>	<b>15</b>	<b>662</b>	<b>223</b>	<b>885</b>	<b>4.8%</b>	<b>3.3</b>
Euro	<b>2</b>	<b>21</b>	<b>4</b>	<b>385</b>	<b>27</b>	<b>412</b>	<b>4.0%</b>	<b>2.5</b>
Japanese Yen	–	<b>1</b>	<b>2</b>	<b>80</b>	<b>31</b>	<b>111</b>	<b>0.4%</b>	<b>1.4</b>
Other currencies	<b>4</b>	<b>2</b>	<b>12</b>	<b>258</b>	<b>109</b>	<b>367</b>	<b>3.1%</b>	<b>1.5</b>
	<b>28</b>	<b>51</b>	<b>40</b>	<b>1,435</b>	<b>1,115</b>	<b>2,550</b>	<b>4.1%</b>	<b>2.6</b>
<b>30 September 2004</b>								
Sterling	23	2	11	60	65	125	7.0%	5
US Dollar	10	23	15	744	421	1,165	4.1%	2.5
Euro	4	23	6	515	157	672	4.0%	2.1
Japanese Yen	–	2	2	85	39	124	0.3%	1.5
Other currencies	4	4	10	333	152	485	3.5%	1.2
	41	54	44	1,737	834	2,571	3.9%	2.1

Floating rate borrowings bear interest at rates linked to LIBOR or its foreign equivalents.

**(b) Interest rate and currency of financial assets**

	2005		2004	
	Cash, net of overdrafts £m	Other financial assets £m	Cash, net of overdrafts £m	Other financial assets £m
Sterling	<b>154</b>	<b>5</b>	81	9
US Dollar	–	<b>1</b>	32	22
Euro	<b>54</b>	<b>5</b>	39	16
Japanese Yen	<b>6</b>	–	13	–
Other currencies	<b>71</b>	<b>2</b>	87	6
	<b>285</b>	<b>13</b>	252	53

Overdrafts principally arise as a result of uncleared transactions and accordingly have been netted off against cash balances in the above disclosure. Interest on short-term deposits and bank overdrafts is at the relevant money market rates. Other financial assets do not bear interest.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**17 Financial Instruments** continued**(c) Foreign currency risk**

After taking into account the effects of forward foreign exchange contracts and cross currency swaps, the Group has no significant currency exposures generating gains or losses that would be recognised in the profit and loss account.

**(d) Fair values of financial instruments**

The fair values of the interest rate swaps and forward foreign currency contracts have been determined by reference to prices available from the markets on which the instruments involved are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

	2005		2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial instruments held or issued to finance the Group's operations:				
Bank loans	<b>642</b>	<b>642</b>	654	654
Bonds	<b>1,320</b>	<b>1,387</b>	1,328	1,385
Loan notes	<b>575</b>	<b>602</b>	569	615
Obligations under finance leases	<b>51</b>	<b>51</b>	54	54
Deferred consideration	<b>28</b>	<b>28</b>	41	41
Cash at bank and in hand	<b>(318)</b>	<b>(318)</b>	(266)	(266)
Bank overdrafts	<b>33</b>	<b>33</b>	14	14
	<b>2,331</b>	<b>2,425</b>	2,394	2,497
Financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	–	<b>(20)</b>	–	14
Cross currency swaps	<b>13</b>	<b>23</b>	20	30
	<b>13</b>	<b>3</b>	20	44

Fair values of debtors and creditors due after more than 1 year are not significantly different from their book values.

**(e) Interest rate risk hedging**

	2005			2004		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised gains/(losses) arising under interest rate and currency swaps:						
Interest rate swaps	<b>47</b>	<b>(27)</b>	<b>20</b>	18	(32)	(14)
Currency swaps and forward contracts	–	<b>(10)</b>	<b>(10)</b>	–	(13)	(13)
Anticipated income/(expense) arising in the following year:						
Interest rate swaps	<b>14</b>	<b>(11)</b>	<b>3</b>	7	(19)	(12)
Currency swaps and forward contracts	<b>6</b>	<b>(5)</b>	<b>1</b>	2	(9)	(7)

In addition to the amounts disclosed above, a gain of £70 million in respect of terminated interest rate swaps was deferred in the balance sheet as at 30 September 2005 pending its recognition in the profit and loss account (2004: £90 million). Of this carried forward amount, gains of £19 million are expected to be recognised in the profit and loss account in the 2006 financial year. The termination payment received is being spread over the life of the underlying exposure.

**NOTES TO THE FINANCIAL STATEMENTS**  
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<b>18 Provisions for liabilities and charges</b>	Pensions and other post- employment benefits £m	Insurance £m	Onerous contracts £m	Legal and other claims £m	Environmental £m	Deferred tax £m	Total £m
At 1 October 2004	<b>253</b>	<b>38</b>	<b>31</b>	<b>52</b>	<b>11</b>	–	<b>385</b>
Arising from acquisitions	<b>2</b>	–	–	<b>1</b>	–	–	<b>3</b>
Expenditure in the year	<b>(26)</b>	<b>(5)</b>	<b>(6)</b>	<b>(3)</b>	–	–	<b>(40)</b>
Charged to profit and loss account	<b>19</b>	<b>6</b>	–	<b>4</b>	–	–	<b>29</b>
Credited to profit and loss account	<b>(1)</b>	–	<b>(2)</b>	<b>(1)</b>	–	<b>(1)</b>	<b>(5)</b>
Reclassified	<b>4</b>	<b>(1)</b>	–	<b>1</b>	–	<b>18</b>	<b>22</b>
Currency adjustment	<b>2</b>	–	<b>1</b>	<b>1</b>	–	–	<b>4</b>
At 30 September 2005	<b>253</b>	<b>38</b>	<b>24</b>	<b>55</b>	<b>11</b>	<b>17</b>	<b>398</b>

Pensions and other post-employment benefits and insurance relate to the costs of self-funded pension schemes or statutory retirement benefits and self-funded insurance schemes respectively and are essentially long-term in nature. Onerous contracts represent the liabilities in respect of short and long-term leases on non-utilised properties and other contracts lasting under 5 years. Legal and other claims relate principally to provisions for the cost of litigation and sundry other claims. The timing of the settlement of these claims is uncertain. Environmental provisions are in respect of liabilities relating to the Group's responsibility for maintaining its operating sites in accordance with statutory requirements and the Group's aim to have a low impact on the environment. These provisions are expected to be utilised as operating sites are disposed of or as other events arise.

<b>19 Called up share capital</b>	2005		2004	
	Number	£m	Number	£m
Authorised:				
– Ordinary shares of 10p each	<b>3,000,010,000</b>	<b>300</b>	3,000,010,000	300
– Redeemable preference shares of £1 each	–	–	49,998	–
Allotted and fully paid:				
– Ordinary shares of 10p each	<b>2,155,661,135</b>	<b>216</b>	2,155,345,032	216

	Number of shares
Ordinary shares of 10p each allotted as at 1 October 2004	<b>2,155,345,032</b>
Ordinary shares allotted during the year on exercise of share options	<b>316,103</b>
Ordinary shares of 10p each allotted as at 30 September 2005	<b>2,155,661,135</b>

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**19 Called up share capital** continued

## Share option schemes

During the year 5,940,000 options were granted under the Compass Share Option Plan and 22,856,776 options under the Compass Group Management Share Option Plan. All options were granted over the Company's ordinary shares and the grant price was equivalent to the market value of the Company's shares at the date of grant. 6,700,140 options were granted under the Compass Group UK Savings-Related Share Option Scheme and 7,239,212 options under the International Sharesave Plans. These grants were made at 80% of the market value at the time of grant.

At 30 September 2005, employees held options over a total of 167,966,072 ordinary shares under all of the Group's share option plans as follows:

Number of shares	Option price per share (Pence)	Exercisable
<b>Executive and Management Share Option Plans</b>		
69,244	310.29	1 July 1999 – 30 June 2006
121,695	314.98	10 December 1999 – 09 December 2006
198,421	324.91	17 December 2000 – 16 December 2007
270,051	338.27	11 December 2001 – 10 December 2008
69,244	444.76	17 June 2002 – 16 June 2009
7,159,754	312.80*	16 September 2002 – 15 September 2009
3,353,463	316.10*	29 September 2002 – 28 September 2009
650,118	391.70	25 November 2002 – 24 November 2009
13,849	431.40	22 December 2002 – 21 December 2009
355,072	394.00*	3 February 2003 – 2 February 2010
160,616	413.00	8 February 2003 – 7 February 2007
19,122,387	371.60	13 September 2003 – 12 September 2010
515,000	524.50	28 May 2004 – 27 May 2011
13,586,050	430.00	19 September 2004 – 18 September 2011
14,844,200	422.00	23 May 2005 – 22 May 2012
5,505,268	292.50	30 September 2005 – 29 September 2012
1,325,650	313.75	4 December 2005 – 3 December 2012
21,163,400	320.00	28 May 2006 – 27 May 2013
710,000	356.00	3 December 2006 – 2 December 2013
2,496,450	356.00	3 December 2006 – 2 December 2013
2,000,000	333.50	7 June 2007 – 6 June 2014
16,545,510	316.25	3 August 2007 – 2 August 2014
1,750,000	316.25	3 August 2007 – 2 August 2014
22,708,676	229.25	1 December 2007 – 30 November 2014
5,940,000	229.25	1 December 2007 – 30 November 2014
<b>140,634,118</b>		

**NOTES TO THE FINANCIAL STATEMENTS**  
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**19 Called up share capital continued**

Number of shares	Option price per share (Pence)	Exercisable
<b>UK and International Sharesave Plans</b>		
877,687	436.00	1 September 2006 – 28 February 2009
172,247†	436.00	1 September 2006 – 28 February 2009
1,613,721	336.00	1 September 2005 – 28 February 2010
882,702†	336.00	1 September 2005 – 28 February 2008
1,006,758	290.20	1 September 2006 – 28 February 2011
859,430†	290.20	1 September 2006 – 28 February 2009
1,911,171†	290.20	1 September 2006
85,114†	290.20	28 February 2007
2,035,570	266.80	1 September 2007 – 28 February 2012
1,551,354†	266.80	1 September 2007 – 28 February 2010
2,362,240†	266.80	1 September 2007
77,156†	266.80	4 September 2007
6,657,592	179.20	1 September 2008 – 28 February 2013
2,277,296†	179.20	1 September 2008 – 28 February 2011
4,758,647†	179.20	1 September 2008
203,269†	179.20	1 September 2008
<b>27,331,954</b>		

\* Options granted over ordinary shares in Compass Group Holdings PLC ('CGH'). Under its articles of association, any CGH ordinary shares which are issued on exercise are automatically transferred to the Company in consideration of the issue of Compass Group PLC ordinary shares on the basis of 1.835 for every CGH share. Numbers and prices given are relative to Compass Group PLC.

† Options granted under the International Sharesave Plan represent appreciation rights over the number of shares shown. In the event of exercise, holders will receive a number of shares calculated by reference to the increase in the market price at the time of exercise over the option price.

An analysis of options held by directors at 30 September 2005 is set out in the Remuneration Committee's report on pages 34 and 35.

	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Consolidated profit and loss reserve		Total £m
				Before goodwill written off £m	Goodwill written off £m	
<b>20 Reserves</b>						
Group						
At 1 October 2004	<b>93</b>	<b>9</b>	<b>4,170</b>	<b>127</b>	<b>(2,132)</b>	<b>(2,005)</b>
Currency translation differences	–	–	–	<b>24</b>	<b>(15)</b>	<b>9</b>
Tax on currency translation differences	–	–	–	<b>2</b>	–	<b>2</b>
Premium on ordinary shares issued, net of expenses	<b>1</b>	–	–	–	–	–
Amounts transferred from reserves	–	–	–	<b>(210)</b>	–	<b>(210)</b>
At 30 September 2005	<b>94</b>	<b>9</b>	<b>4,170</b>	<b>(57)</b>	<b>(2,147)</b>	<b>(2,204)</b>

Currency translation differences are net of £26 million of exchange losses on loans which have been offset in reserves against gains of £35 million on retranslation of overseas net assets.

Goodwill written off represents the excess of the consideration for the operations acquired prior to 1 October 1998 over the fair value of the net assets acquired. The goodwill has been written off to profit and loss reserve on consolidation.

The merger reserve arose in 2000 following the demerger from Granada Compass plc.

Own shares held by the Group represent 827,458 shares in Compass Group PLC (2004: 324,162 shares). All shares are held by the Compass Group Employee Share Trust ('ESOP'). These shares are listed on a recognised stock exchange and their market value at 30 September 2005 was £2 million (2004: £1 million). The nominal value held at 30 September 2005 was £80,000 (2004: £30,000).

The ESOP is a discretionary trust for the benefit of employees and the shares held are used to satisfy some of the Group's liabilities to employees for share options, share bonus and long-term incentive plans. All of the shares held by the ESOP are required to be made available in this way.

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

**20 Reserves** continued

	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m
Company			
At 1 October 2004	<b>93</b>	<b>9</b>	<b>426</b>
Premium on ordinary shares issued, net of expenses	<b>1</b>	–	–
Amount transferred to reserves	–	–	<b>54</b>
At 30 September 2005	<b>94</b>	<b>9</b>	<b>480</b>

**21 Acquisitions**

Businesses acquired during the year are shown below.

Adjustments have been made to reflect the provisional fair value of assets and liabilities acquired as follows:

	Dates	Consideration and costs £m	Net assets acquired £m	Fair value adjustments £m	Accounting policy realignment £m	Fair value of assets acquired £m	Goodwill £m
Further purchases of 30% of Onama	December 2004	<b>42</b>	<b>(15)</b>	–	–	<b>(15)</b>	<b>57</b>
HDS Services, Inc	January 2005	<b>20</b>	<b>(2)</b>	<b>(1)</b>	–	<b>(3)</b>	<b>23</b>
Others		<b>43</b>	<b>14</b>	<b>(1)</b>	<b>(3)</b>	<b>10</b>	<b>33</b>
Total acquisitions in the year		<b>105</b>	<b>(3)</b>	<b>(2)</b>	<b>(3)</b>	<b>(8)</b>	<b>113</b>
Adjustments to prior periods:							
Deferred consideration payable		<b>4</b>	–	–	–	–	<b>4</b>
Adjustments to net assets acquired		–	–	<b>2</b>	–	<b>2</b>	<b>(2)</b>
		<b>4</b>	–	<b>2</b>	–	<b>2</b>	<b>2</b>
		<b>109</b>	<b>(3)</b>	–	<b>(3)</b>	<b>(6)</b>	<b>115</b>

	Net assets acquired £m	Fair value adjustments £m	Accounting policy realignment £m	Fair value to the Group £m
Tangible fixed assets	<b>1</b>	<b>(1)</b>	–	–
Investments	<b>4</b>	<b>(1)</b>	–	<b>3</b>
Debtors	<b>6</b>	<b>2</b>	–	<b>8</b>
Cash	<b>2</b>	–	–	<b>2</b>
Creditors	<b>(9)</b>	<b>(1)</b>	–	<b>(10)</b>
Provisions	<b>(1)</b>	<b>(2)</b>	–	<b>(3)</b>
Tax	–	<b>3</b>	<b>(3)</b>	–
Minority interests	<b>(6)</b>	–	–	<b>(6)</b>
	<b>(3)</b>	–	<b>(3)</b>	<b>(6)</b>

All acquisitions were accounted for under the acquisition method of accounting.

Fair value adjustments principally relate to asset valuation adjustments, recognising pension commitments and other liabilities not previously recorded.

Adjustments made to the fair value of assets of businesses acquired in 2005 are provisional owing to the short period of ownership. Adjustments to prior year acquisitions relate to the restatement of the values of assets and liabilities in the light of knowledge arising from a more extended period of ownership and additional consideration and costs, all in respect of acquisitions made during the year ended 30 September 2004.

There was no material difference between operating profits arising from acquisitions and cash flows contributed by those acquisitions.

## NOTES TO THE FINANCIAL STATEMENTS

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### 22 Pensions

#### Pension schemes operated

The Group operates a number of pension arrangements throughout the world which have been developed in accordance with statutory requirements and local customs and practices. The majority of schemes are self administered and the schemes' assets are held independently of the Group's finances. Pension costs are assessed in accordance with the advice of independent, professionally qualified actuaries. The Group makes employer contributions to the various schemes in existence within the range of 6%-35% of pensionable salaries.

#### UK schemes

Within the UK there are three main arrangements:

- (i) Compass Group Final Salary Pension Plan, 'the Plan'
- (ii) Compass Pension Scheme, 'the Scheme'
- (iii) Compass Retirement Income Savings Plan, 'CRISP'

CRISP was launched on 1 February 2003. This is the main vehicle for pension provision for new joiners in the UK but existing members of the Plan and the Scheme will continue to accrue benefits under those arrangements. CRISP is a contracted-in money purchase arrangement whereby the Group will match employee contributions up to 6% of pay (minimum 3%).

The Plan and the Scheme are defined benefit arrangements operated on a prefunded basis. The funding policy is to contribute such variable amounts, on the advice of the Actuary, as achieves a 100% funding level on a projected salary basis. The actuarial assessments covering expense and contributions are carried out by independent qualified actuaries.

The Scheme was set up from 1 February 2001 to mirror the Granada Pension Scheme and accept the seamless transfer of pension rights for the former Granada Compass PLC employees who transferred to Compass Group PLC. All accrued rights in respect of the Granada Pension Scheme of and in respect of the employees and former employees (including pensioners) of, or who are attributed to, the hospitality businesses previously owned by Granada Compass PLC were transferred to the Scheme together with an agreed share of all the assets of the Granada Pension Scheme under the terms of a specific agreement. The share of assets was determined on a 'share of fund' basis, whereby the assets transferred were in the same proportion of all the relevant assets of the Granada Pension Scheme as the liabilities transferred to the Scheme bear to the whole of the relevant liabilities of the Granada Pension Scheme. This has been calculated as approximately 30% but is subject to the final agreement between the actuaries of the respective Schemes and to all applicable legal and Inland Revenue requirements being met. An interim transfer was made at the end of October 2001 and a further payment in June 2003. The final transfer of assets adjustment of around £3 million is expected to be completed in the near future.

#### Overseas schemes

In the USA the main plan is a defined benefit plan. The funding policy, in accordance with government guidelines, is to contribute such variable amounts, on the advice of the actuary, as achieves a 100% funding level on a projected salary basis. In Denmark, the Netherlands and Ireland the Group operates insured defined benefit pension plans where the Group contributions represent the insurance companies' assessment of the annual cost of the benefits earned in that year. In Switzerland the Group participates in funded defined benefit arrangements.

In other countries Group employees participate primarily in state arrangements to which the Group makes the appropriate contributions.

#### Regular pension costs – SSAP24

The pension cost of these plans for the year was £78 million (2004: £70 million).

Of the total cost of £78 million, £52 million (2004: £48 million) relates to defined benefit schemes and £26 million (2004: £22 million) relates to defined contribution schemes.

The pension cost of the Plan for the year to 30 September 2005 has been assessed in accordance with the advice of professionally qualified consulting actuaries based in the UK on an actuarial valuation at 5 April 2004. This was made using the projected unit credit method. The pension cost of the Scheme for the year to 30 September 2005 has been similarly assessed based on an actuarial valuation at 5 April 2004.

The most significant actuarial assumptions adopted for determining pension costs and contributions were as follows:

- (i) Rate of return on investments pre-retirement 8.5% per annum, and post-retirement 5.25% per annum.
- (ii) Rate of increase in pensionable pay 3.25% per annum
- (iii) Rate of increase in pension 2.75% per annum

The asset valuation method used was the market value approach. The market value of the Plan's assets was £212 million as at 5 April 2004. The results of the valuation on the above basis showed that the value of the assets at 5 April 2004 represented 87% of the value of the accrued benefits after allowing for expected future increases in pensionable pay and pensions. Payments to the Plan in the year total £10 million (2004: £10 million) more than the profit and loss pension cost, consequently, this amount is included within prepayments. The total prepayment is £34 million (2004: £24 million). The market value of the Scheme's assets as at 5 April 2004 was £466 million. The results of the valuation on the above basis showed that the value of the assets represented 95% of the value of the accrued benefits at 5 April 2004 after allowing for expected future increases in pensionable pay and pensions. Payments to the Scheme total £13 million (2004: £4 million) more than the profit and loss pension cost which has been charged against provisions for liabilities and charges.

There have been no material changes to the pension arrangements since the valuation and review dates although a review is currently in progress. The assets are held in separate funds administered by trustees and are independent of the Group's finances.

The assets in the US Group final salary pension plan had a market value of \$105 million as at 30 June 2005 representing 61% of the accrued benefits under the scheme, after allowing for expected future increases in pensionable pay and pensions in the course of payment. The actuarial method used to value this scheme is the projected unit credit method. The most significant assumptions used for the US Group final salary pension plan were:

- (i) Expected rate of return on assets 8.5% per annum
- (ii) Rate of increase in pensionable salaries 4.0% per annum
- (iii) Discount rate 5.0% per annum

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

**22 Pensions continued**

The amount charged to the profit and loss account in respect of the US Group was £15 million (2004: £11 million) and the basis of this charge was in accordance with the advice of professionally qualified consulting actuaries based in the US.

At the balance sheet date outstanding employer and employee contributions for all schemes amount to £16 million and £nil respectively (2004: £15 million and £1 million respectively).

**Unfunded pension liabilities**

Unfunded pension liabilities have accrued for a total of 42 individuals. The total value of the unfunded liabilities at 30 September 2005 was £24 million (2004: £21 million) which has been provided for in full.

**FRS 17 disclosures**

Additional disclosures in respect of the Group's defined benefit pension schemes required under the transitional provisions of FRS 17 are set out below.

The defined benefit schemes are closed to new entrants. For these schemes the current service cost will increase under the projected unit credit method as the members of the schemes approach retirement.

Disclosures showing the assets and liabilities of the schemes are set out below. These have been calculated on the following assumptions:

	UK schemes			US schemes			Other schemes		
	At 30 Sep 2005	At 30 Sep 2004	At 30 Sep 2003	At 30 Sep 2005	At 30 Sep 2004	At 30 Sep 2003	At 30 Sep 2005	At 30 Sep 2004	At 30 Sep 2003
Rate of increase in salaries	<b>3.2%</b>	3.2%	3.3%	<b>4.0%</b>	4.0%	4.0%	<b>2.6%</b>	2.8%	3.0%
Rate of increase for pensions in payment/deferred pensions	<b>3.0%/2.7%*</b>	3.0%/2.7%*	3.0%/2.8%*	<b>0.4%</b>	0.4%	0.2%	<b>0.8%</b>	0.8%	0.9%
Discount rate	<b>5.0%</b>	5.6%	5.9%	<b>5.5%</b>	6.0%	6.5%	<b>3.8%</b>	4.9%	5.0%
Inflation assumption	<b>2.7%</b>	2.7%	2.8%	<b>2.4%</b>	2.3%	2.0%	<b>1.8%</b>	1.9%	1.9%

\* Varies according to the benefit structure.

The assets and liabilities of the major schemes operated by the Group and the effect that adoption of FRS 17 would have had on the Group's profit and loss reserve are shown below:

	UK schemes		US schemes		Other schemes		Total schemes	
	Long-term expected rate of return	£m	Long-term expected rate of return	£m	Long-term expected rate of return	£m	Long-term expected rate of return	£m
30 September 2005								
Equities	<b>7.5%</b>	<b>496</b>	<b>8.3%</b>	<b>53</b>	<b>6.2%</b>	<b>44</b>	<b>7.5%</b>	<b>593</b>
Bonds	<b>4.5%</b>	<b>310</b>	<b>5.0%</b>	<b>17</b>	<b>3.4%</b>	<b>65</b>	<b>4.3%</b>	<b>392</b>
Other assets	<b>4.0%</b>	<b>18</b>	<b>3.9%</b>	<b>1</b>	<b>3.0%</b>	<b>48</b>	<b>3.3%</b>	<b>67</b>
Market value		<b>824</b>		<b>71</b>		<b>157</b>		<b>1,052</b>
Liabilities		<b>(1,179)</b>		<b>(166)</b>		<b>(239)</b>		<b>(1,584)</b>
Deficit		<b>(355)</b>		<b>(95)</b>		<b>(82)</b>		<b>(532)</b>
Deferred tax asset		<b>107</b>		<b>33</b>		<b>29</b>		<b>169</b>
Net FRS 17 liability		<b>(248)</b>		<b>(62)</b>		<b>(53)</b>		<b>(363)</b>
Net FRS 17 liability								<b>(363)</b>
Reverse existing provisions/assets net of deferred tax								<b>175</b>
Reverse existing SSAP 24 prepayment for Group pension schemes								<b>(34)</b>
Net adjustment which would result from the adoption of FRS 17								<b>(222)</b>
Profit and loss reserve as reported								<b>(2,204)</b>
Profit and loss reserve on an FRS 17 basis								<b>(2,426)</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

**22 Pensions continued**

	UK schemes		US schemes		Other schemes		Total schemes	
	Long-term expected rate of return	£m	Long-term expected rate of return	£m	Long-term expected rate of return	£m	Long-term expected rate of return	£m
30 September 2004								
Equities	8.0%	399	8.0%	43	6.7%	38	7.9%	480
Bonds	5.0%	272	5.7%	16	3.9%	46	4.9%	334
Other assets	4.8%	1	2.2%	1	3.2%	34	3.2%	36
Market value		672		60		118		850
Liabilities		(952)		(143)		(181)		(1,276)
Deficit		(280)		(83)		(63)		(426)
Deferred tax asset		84		29		22		135
Net FRS 17 liability		(196)		(54)		(41)		(291)

Net FRS 17 liability	(291)
Reverse existing provisions/assets net of deferred tax	184
Reverse existing SSAP 24 prepayment for Group pension schemes	(24)
Net adjustment which would result from the adoption of FRS 17	(131)
Profit and loss reserve as reported	(2,005)
Profit and loss reserve on an FRS 17 basis	(2,136)

	UK schemes		US schemes		Other schemes		Total schemes	
	Long-term expected rate of return	£m	Long-term expected rate of return	£m	Long-term expected rate of return	£m	Long-term expected rate of return	£m
30 September 2003								
Equities	6.5%	405	8.0%	38	7.2%	29	6.7%	472
Bonds	5.0%	198	5.7%	18	3.8%	38	4.9%	254
Other assets	0.0%	3	2.6%	1	2.4%	42	2.2%	46
Market value		606		57		109		772
Liabilities		(828)		(130)		(180)		(1,138)
Deficit		(222)		(73)		(71)		(366)
Deferred tax asset		67		26		26		119
Net FRS 17 liability		(155)		(47)		(45)		(247)

Net FRS 17 liability	(247)
Reverse existing provisions/assets net of deferred tax	182
Reverse existing SSAP 24 prepayment for Group pension schemes	(14)
Net adjustment which would result from the adoption of FRS 17	(79)
Profit and loss reserve as reported	(1,899)
Profit and loss reserve on an FRS 17 basis	(1,978)

The FRS 17 deficit has increased during the year ended 30 September 2005 as set out below:

	2005 £m	2004 £m
As at 1 October 2004	<b>(426)</b>	(366)
Acquisitions	-	(4)
Current service costs	<b>(37)</b>	(34)
Curtailment credit	-	6
Contributions paid	<b>73</b>	53
Past service costs	-	(6)
Other financial costs	<b>(15)</b>	(19)
Actuarial losses	<b>(124)</b>	(64)
Exchange rate (losses)/gains	<b>(3)</b>	8
As at 30 September 2005	<b>(532)</b>	(426)

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

**22 Pensions** continued

Had the Group adopted FRS 17 early, the following amounts would have been included in the profit and loss account:

	2005 £m	2004 £m
Current service cost	<b>(37)</b>	(34)
Past service cost	-	(6)
Curtailement credit	-	6
Total which would have been charged to total operating profit under FRS 17	<b>(37)</b>	(34)
Expected return on scheme assets	<b>57</b>	45
Interest on scheme liabilities	<b>(72)</b>	(64)
Net amount which would have been included as other financial costs under FRS 17	<b>(15)</b>	(19)
Total which would have been charged to profit before taxation	<b>(52)</b>	(53)

	£m	2005 % of scheme assets/ (liabilities)	£m	2004 % of scheme assets/ (liabilities)	£m	2003 % of scheme assets/ (liabilities)
In addition, the following amounts would have been recognised in the statement of total recognised gains and losses:						
Difference between actual and expected return on scheme assets	<b>90</b>	<b>8.6</b>	30	3.5	47	6.1
Experience losses on scheme liabilities	<b>(8)</b>	<b>(0.5)</b>	(36)	(2.8)	(29)	(2.5)
Changes in assumptions	<b>(206)</b>	<b>(13.0)</b>	(58)	(4.5)	(68)	(6.0)
Actuarial losses	<b>(124)</b>	<b>(7.8)</b>	(64)	(5.0)	(50)	(4.4)
Exchange rate (losses)/gains	<b>(3)</b>		8		(2)	
	<b>(127)</b>		(56)		(52)	

**23 Contingent liabilities**

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Performance bonds and guarantees of indemnities and overdrafts of subsidiary and associated undertakings	<b>183</b>	188	<b>348</b>	246

On 21 October, the Group announced that it had instructed Freshfields to conduct an investigation into the relationships between ESS, IHC and the United Nations. Ernst & Young are assisting Freshfields in the investigation, reporting to the Chairman of the Compass Group PLC Audit Committee.

On 3 November, the Group announced that the investigation raised serious concerns as to whether, within ESS, there has been in connection with IHC and the UN, improper conduct and a failure to comply with the Group's statement of business principles (which apply to all staff, whatever their seniority). As a result, 3 employees have been dismissed.

The investigation is ongoing and, as yet, no final conclusions have been reached.

The Group will continue to co-operate voluntarily and fully as appropriate with the UN and US authorities, including the Office of the United States Attorney for the Southern District of New York.

UN contracts account for less than 0.5% of the Group's turnover and profits.

No provision has been made in these financial statements in respect of these matters and it is not currently possible to quantify any potential liability which may arise. The directors currently have no reason to believe that any potential liability that may arise would be material to the financial position of the Group.

The Group, through a number of its subsidiary undertakings, is from time to time party to various other legal proceedings or claims arising from its normal business. Provision is made as appropriate. None of these proceedings is regarded as material litigation.

The Group has entered into put and call arrangements with minority shareholders to acquire their interests for a total consideration of £169 million (2004: £226 million) exercisable in future periods. In addition, the Group has provided guarantees to certain minority shareholders over the level of profits which will accrue to them in future periods.

**NOTES TO THE FINANCIAL STATEMENTS**  
CONTINUED

<b>24 Capital commitments</b>	<b>2005</b>	<b>2004</b>
Group	£m	£m
Contracted for but not provided for	<b>35</b>	<b>26</b>

**25 Operating lease and concessions commitments**

The Group was committed to making the following payments during the next year in respect of operating leases and concessions agreements:

	2005			2004		
	Operating leases			Operating leases		
	Land and buildings £m	Other assets £m	Occupancy rentals £m	Land and buildings £m	Other assets £m	Occupancy rentals £m
Commitments which expire:						
Within 1 year	<b>11</b>	<b>19</b>	<b>12</b>	18	20	15
Between 2 and 5 years	<b>29</b>	<b>29</b>	<b>53</b>	36	20	44
In more than 5 years	<b>32</b>	<b>9</b>	<b>45</b>	34	3	33
	<b>72</b>	<b>57</b>	<b>110</b>	88	43	92

**26 Details of principal subsidiary companies**

Country of registration or incorporation	Principal activities
<b>England and Wales</b>	
Compass Group, UK & Ireland Ltd.	Holding company
Compass Contract Services (UK) Ltd.	Trading company for the provision of foodservice in the UK
Moto Hospitality Ltd.	Trading company for the UK motorway service area business
Letheby & Christopher Ltd.	Trading company for the UK sports and events foodservice business
Select Service Partner Ltd.	Trading company for the UK travel, leisure and concessions business
Scolarest Ltd.	Trading company for the provision of foodservice to the UK education market
Selecta UK Ltd.	Trading company for the provision of vending foodservice in the UK
Compass Purchasing Ltd.	Provision of purchasing services in the UK
Compass Group Holdings PLC	Holding company and corporate activities
Hospitality Holdings Ltd.*	Intermediate holding company