27 September 2012

Compass Group PLC
Trading Update and European Action Plans

This statement updates investors on the Group's progress in the current year, ahead of the announcement of its results for the year to 30 September 2012 on 21 November 2012.

Strong fourth quarter; full year expectations remain positive and unchanged

- Full year constant currency revenue growth expected to be c.8%; organic revenue growth of c.5.5%
- Operating profit increase of approximately 8% (constant currency nearly 9%); margin slightly ahead of last year

North America and Fast Growing & Emerging generating excellent growth

- Full year organic revenue in North America expected to be up over 8% and Fast Growing & Emerging over 12%; strong pipeline of new contracts
- Ongoing efficiencies being reinvested to drive growth and delivering margin expansion in North America

Acceleration of cost actions across Europe to drive long-term competitiveness

- Economic conditions, particularly in Southern Europe (4% of Group revenue), have continued to worsen
- Fundamentals of the business are solid; programme to unlock further efficiencies to manage challenging economic conditions and position us for future growth
- Southern Europe restructuring to streamline the operations and re-base the business
- £95m of annual cost savings by 2014 from £150m exceptional cash charge over two years and a non-cash exceptional charge of £195m, mainly in Southern Europe

Prospects of the Group remain strong; no change to 2012 and 2013 expectations

- Positive outlook in North America and Fast Growing & Emerging, combined with European action plans, underpin expectations for 2013
- Well placed to exploit significant growth opportunities in food and support services globally
- Maintain expectation of further margin progression over the medium term

Richard Cousins, Group Chief Executive, said:
"Trading in the fourth quarter has been good and, in line with our expectations, organic revenue growth will be around 5.5% for the full year. The positive trading momentum in North America and Fast Growing & Emerging has continued and the outlook in both regions is encouraging. The fundamentals of the European business remain solid, but we are taking decisive action to protect profitability in the immediate future and improve operational efficiency over the medium term. Overall, the prospects for the business around the world are good and I remain confident that we will continue to drive revenue and margin growth."

Group

Compass has delivered another good performance in the fourth quarter of the financial year and our expectations for the full year remain positive and unchanged. North America and Fast Growing & Emerging have performed strongly throughout the year, with high levels of new business and a consistent rate of retention. Economic conditions in Europe have continued to decline, in particular in Southern Europe, and hence we are announcing today a programme of further cost efficiency measures across Europe, together with a comprehensive restructuring plan for Southern Europe.

Through our relentless focus on efficiencies, we have generated further cost savings in the year across the Group. These have been partly reinvested in growth opportunities, particularly in the Fast Growing & Emerging markets, and they have also helped us to manage the difficult economic environment and negative like for like volume trends in parts of Europe.

In the fourth quarter, organic revenue growth is expected to be around 6%. For the full year, including the contribution from acquisitions, we anticipate that constant currency revenue growth will be around 8% and organic revenue growth will be around 5.5%. The operating profit margin for the full year is expected to be slightly up on last year. Free cash flow conversion remains strong.

North America

The positive trading we have experienced throughout the year has continued in the fourth quarter, with very good levels of organic revenue growth, retention and margin progression. We have benefited from the ongoing revenue contribution from the Ascension Health contract and have now successfully mobilised all 90 hospitals. In addition to this, we have recently started operating a very significant contract with Texas A&M University that we won earlier in the year. We have maintained the strong performance in our Sports & Leisure business from the third quarter. Our pipeline of new business is encouraging and our focus on generating further efficiencies remains.

Overall, for the full year, we expect organic revenue growth of over 8% and 10bps of margin improvement, delivering an 8% operating profit margin for the first time. Looking further forward, North America will continue to be the principal growth engine for the Group; the outsourcing culture is vibrant and we have excellent momentum in the business there.

Fast Growing & Emerging

Organic revenue continues to grow at a fast pace, driven by good new business wins and like for like revenue growth across most countries. In particular, we have seen strong double digit growth rates throughout the year in Australia, Brazil, Turkey, other parts of Latin America and India. We have also continued to invest in the appropriate infrastructure and opportunities to underpin the next stage of sustainable growth. The region is an increasingly important part of our strategy and we are maintaining our focus on expanding our presence in these markets. We see many exciting growth prospects and an accelerating trend towards outsourcing.

For the full year, we expect organic revenue growth of 12% and a flat margin versus last year.

Europe & Japan

Trading

Economic conditions in Europe, and particularly in Southern Europe, have worsened throughout the year, as the financial crisis and wider uncertainty continues. Whilst we are still seeing good levels of new business, in particular in the Nordics, France and Spain as organisations recognise the benefits of outsourcing, we are not immune from the economic difficulties. As a result, we have seen increasingly negative like for like volume trends, which have accelerated in the second half of the year and are now running at minus 2-3%. Within this, the Southern European countries of Italy, Spain and Portugal have seen like for like volume declines of around 5%. The challenging conditions are also putting some modest pressure on retention and there has been a small increase in client closures. The recovery in Japan is ongoing, although prior year comparatives are becoming stronger.

Overall, we expect organic revenue for the full year to decline by approximately 1% and the operating profit margin to be flat on last year.

European Action Plans

In April 2012, we changed our management structure, dividing the Group into three regions – North America, Europe & Japan and Fast Growing & Emerging – to reflect the different challenges and opportunities. This has brought a more focused and incisive approach to running the business.

Under the leadership of Andrew Martin, the Group's former Finance Director who was appointed Chief Operating Officer for Europe & Japan, we have undertaken a detailed bottom up review of our European strategy and operations. The review concluded that we have a good strategy in place and that, over the medium term, there are many opportunities to drive growth in food and support services. However, it also confirmed that our performance in Europe, particularly in Southern Europe, is inevitably being impacted by both the difficult economic conditions and the structure of our operating cost model.

In response, we will address two key issues. Firstly, the cost structure in our European businesses, and secondly the very challenging conditions in Southern Europe.

Through making these changes, we will protect the profitability of the business in the immediate future and, more importantly, improve our operational efficiency over the medium term.

Accelerated Efficiencies across Europe

The expectation of a prolonged period of economic weakness demands that we further reduce our European cost base and drive greater competitiveness. A key action to deliver this will be to unlock our significant cost of labour (MAP 4). This will be achieved through a greater focus on our labour model, which will reduce our fixed cost base and increase our flexibility. In addition, we are driving programmes in our cost of food (MAP 3) and above unit overheads (MAP 5) with even greater intensity.

Southern Europe Restructuring

The very challenging trading conditions in Southern Europe require more comprehensive action. We will simplify the business, deal with the immediate challenges and re-base our operations around a smaller core of profitable, cash generative contracts. In addition to reducing our cost base, important actions include: making provisions for previously profitable contracts that have been affected by the severe deterioration of the economy, providing for the recovery of certain debts and exiting a small number of non-core businesses that are no longer strategically or economically attractive. Most of these costs are non-cash. Overall, revenues from our business in Southern Europe will reduce from £800m to approximately

£600m as we re-base our operations to a more profitable and cash generative business from which to grow.

Exceptional Cash Charge Relating to Accelerated Efficiencies
The accelerated efficiency programme across the continent will incur an exceptional cash cost of £100 million in 2012 and £50 million in 2013. Combined, we expect these investments to generate £50 million of annual savings in 2013, increasing to a full run rate of £75 million by 2014, implying a cash payback of around 2 years.

Exceptional Non-Cash Charge
We will incur a one-off predominantly non-cash exceptional charge of £195 million in 2012, which relates mainly to restructuring and streamlining our Southern European operations. There will be an associated £20 million benefit to the income statement in 2013.

The combined savings of £70m in 2013 (£50m relating to the accelerated efficiencies and £20m relating to the non-cash charge), as detailed above, will help to mitigate like for like volume declines, which if 3% negative, could equate to a profit impact of c.£60 million. We are therefore confident that the actions we are taking will underpin delivery against 2013 expectations.

Financial Position

We have invested approximately £200 million in acquisitions in the year to date.

During the fourth quarter, the Group has continued with its £500 million share buyback programme. As at 26 September 2012, 54.1 million shares have been purchased for cancellation for £355.7 million, and the programme remains on track to complete within the calendar year.

During the Group's close period between 1 October 2012 and 21 November 2012, the Company intends to continue its existing buyback programme, as announced on 23 November 2011. The repurchases made during that period will be managed by an independent third party.

Summary and Outlook

Compass has had a good year. North America and Fast Growing & Emerging, which account for two thirds of Group revenue, have delivered strong organic revenue growth and our operating profit margin in North America is expected to reach 8%. Looking ahead to next year, the pipeline of new contracts is encouraging and we expect to see further good performances in these regions.

We anticipate that economic conditions in Europe will remain challenging, with like for like volume under ongoing pressure. However, our core business remains solid and we are taking decisive action to re-base our business in Southern Europe and ensure we are best placed to capitalise on the many opportunities to drive future revenue and margin growth.

The combination of strong trading in North America and the Fast Growing & Emerging markets, together with the European action plans, underpins our confidence in delivering against both 2012 and 2013 market expectations.

In the longer term, we remain very positive about the opportunities to grow the business and we are well placed to capitalise on the significant structural growth potential in both food and support services globally. We also expect to generate more cost efficiencies, supporting our belief that we will make further progress in the operating profit margin over the medium term.

Presentation

There will be a presentation by management at 8.30am this morning at the offices of Bank of America Merrill Lynch, Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ.

The presentation will also be webcast live on our website at www.compass-group.com. If you would like to listen by phone, please dial +44 20 3003 2666 and quote ‘Compass’.

Enquiries

Compass Group PLC	Sarah John / Clare Hunt	+44 1932 573 000
Finsbury PR	Gordon Simpson	+44 20 7251 3801
Website	www.compass-group.com	

Note to Editors

(a) Compass Group PLC is a world leading food and support services company, which generated annual revenues of £15.8 billion in the year to 30 September 2011. It operates in around 50 countries, employs over 470,000 people and serves over 4 billion meals every year. The Company specialises in providing food and a range of support services across the core sectors of Business & Industry, Defence, Offshore & Remote Site, Healthcare, Education, Sports & Leisure and Vending with an established brand portfolio.

(b) MAP (Management and Performance) is a simple, but clearly defined Group operating framework. MAP focuses on five key value drivers, enabling the businesses to deliver disciplined, profitable growth with the focus more on organic growth and like for like growth.

The five key value drivers are:

MAP 1: Client sales and marketing

MAP 2: Consumer sales and marketing

MAP 3: Cost of food

MAP 4: Unit costs

MAP 5: Above unit overheads

(c) Organic revenue growth, a term used throughout the announcement, is calculated by adjusting for acquisitions (excluding current period acquisitions and including a full period in respect of prior period acquisitions), disposals (excluded from both periods) and exchange rate movements (translating the prior period at current period exchange rates).

(d) Forward looking statements

Certain information included in this announcement is forward-looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward-looking statements. Forward-looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of expected future revenues, financing plans, expected expenditures and divestments, risks associated with changes in economic conditions, the strength of the foodservice and support services markets in the jurisdictions in which the Group operates, fluctuations in food and other product costs and prices and changes in exchange and interest rates. Forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "believes", "estimates", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. All forward-looking statements in this announcement are based upon information known to the Company on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward-looking statements, which speak only at their respective dates. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Services Authority), the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

A copy of this release, together with all other recent announcements and presentations can be found on Compass Group's website at www.compass-group.com.